1988 Annual Report

Financial Highlights

General Electric Company and consolidated affiliates

(Dollar amounts in millions; per-share amounts in dollars)	1988	1987	1986
Revenues	**$50,089**	$48,158	$42,013
Net earnings	**3,386**	2,915	2,492
Dividends declared	**1,314**	1,209	1,081
Earned on average share owners' equity	**19.4%**	18.5%	17.3%
Per share			
Net earnings	**$ 3.75**	$ 3.20	$ 2.73
Dividends declared	**1.46**	1.32½	1.18½

See note 1 to the consolidated financial statements about the change in consolidation policy in 1988.

Contents

To Our Share Owners

Nineteen eighty-eight was another exciting and successful year for GE. Earnings per share grew 17%. Earnings were $3.386 billion on revenues of $50.089 billion. The fourth quarter was the first in which GE's reported net earnings broke the one-billion-dollar mark. Return on equity was 19.4%, up almost a point. Operating margins grew, as did total cost productivity, which is now gaining at three times the national average and accelerating.

The year was punctuated by several key acquisitions, alliances and joint ventures that strengthened the Company's position around the globe. The results of these and other globalization efforts were apparent as revenues from international operations approached $11 billion, producing an operating profit of $2 billion — up more than 50% from the level of just two years ago and accounting for more than one-third of GE's total operating profit in 1988. The strong demand for our products around the world helped GE make a $3.1 billion positive contribution to the U.S. balance of trade in 1988, 50% greater than in 1987.

By virtually every measurement, it was a great year. But, as is usually the case in most years, a few thorns can be found among the roses — two, to be exact.

The first was a problem we've experienced with a new type of rotary compressor in certain models of our large refrigerators. There is no safety issue involved, and we are in the midst of an active campaign to replace every one of these compressors with minimum inconvenience to our customers. Our aim is to come out of this situation with our reputation for customer support and satisfaction not only intact but — if anything — enhanced. While the cost to the Company will be substantial, we have set up reserves to cover the estimated cost of the fix — and we still had a record performance in 1988.

The second disappointment of 1988 is one you, as share owners, are quite familiar with: the price of our stock. Those who have held GE shares from the early 1980s have been rewarded handsomely. Appreciation and yield provided a return averaging 20% per year, compounded from 1981 to 1988, even with the October 1987 correction, compared with a return of 15% for the S&P 500. But that's yesterday's performance. In 1988, the stock appreciation didn't keep pace with the Company's performance.

We're not sure why this is the case, but it occurs to us that perhaps the pace and variety of our activity appear unfocused to those who view it from the outside. The general media and the financial press have, for the most part, been more than favorable in their appraisal of our performance, but as we've picked up the tempo, especially in 1988, we began hearing: GE is "too difficult to understand" and "portfolio managing." We even heard ourselves described by the "C" word — conglomerate — with its usual pejorative corollary: "Who knows what they'll buy or sell next?"

You get the idea.

Perhaps a strategy that appears to us crystal clear and consistent — because we live by it — seems less so to some of our key constituencies in the media and financial community.

This is more likely a failure of our communication efforts rather than one of understanding, so we have decided to use a good part of this letter to explain again, without adornment, the operative premises and world view that have guided, without exception, every major move we've made since 1981.

There is no denying we are a diverse company. We are not a computer, or oil, or auto, or steel monolith. Those who track us in the financial analyst community or financial press have much more homework than do those who watch and report on our peers. We have businesses ranging from plastics to network broadcasting to the manufacture of jet engines to reinsurance. But the strategy, the management philosophy that drives the Company, is the essence of simplicity.

We have two basic premises. The first is that we will run only businesses that are number one or number two in their global markets — or, in the case of services, that have a substantial position — and are of scale and potential appropriate to a $50 billion enterprise. Currently, there are 14 of these businesses, highly diverse in their pursuits but closely knit by common values, shared technology and substantial resources; and they draw upon a pool of management talent we believe is unequaled in the world.

The second premise is that in addition to the strength, resources and reach of a big company, which we have already built, we are committed to developing the sensitivity, the leanness, the simplicity and the agility of a small company. We want the best of both.

These premises shape and explain everything we do.

In acquisition philosophy, for example, being number one or number two dictates that we will only acquire companies that are a direct and enhancing graft onto one of our 14 key businesses or that are large, freestanding and in a position of leadership in their marketplaces. The RCA acquisition, while old news, illustrates this principle very

well. NBC was a part of RCA and the nation's number one network. We kept it and added it to our other leadership businesses.

The RCA Aerospace group, on the other hand, was a natural fit with our own GE Aerospace business, so we merged them, strengthening our overall aerospace position. Several discrete RCA businesses that were not strategic to us, such as the carpet company, were neither graftable to our 14 key businesses nor large and freestanding, so we disposed of them almost immediately.

But, for some reason, our trade of the merged GE/RCA television manufacturing business to Thomson of France in exchange for its medical diagnostic business and cash provoked some puzzling responses. Suddenly, the manufacture of televisions became something quintessentially American, like baseball. Some felt we had betrayed our heritage in our compulsion to "do deals." We heard phrases like: "Un-American," "giving up on manufacturing," "exporting jobs."

The facts were these: The combined GE/RCA television business lost $125 million in the 1980s, was a cash drain and was number three or four in the global market with no way in sight of getting to number one or two. Thomson's TV business, while profitable, was in a similar market-share situation — stuck in the middle of the pack. Our trade with Thomson produced the following results. Thomson, including its new employees from GE, broke out of the pack, doubled its volume and moved into a number one or two position in the industry. GE, by acquiring Thomson's medical business, with its $1 billion in sales, and grafting it onto the already strong GE Medical Systems business, became number one in a game central to our strategy. Exporting jobs? Some 21,000 of the 31,000 jobs in the TV business had been overseas for a decade or more. Hurting employees? The employees in that business, formerly endangered by being part of an also-ran in a global market, now have the reach and volume that gives them a real shot at winning.

We think it is one of the most important, logical and universally beneficial moves made anywhere in the 1980s — a win for the employees of the GE/RCA television business, a good deal for Thomson and a key victory for a high-technology GE manufacturing business — Medical Systems — that is now the global technology and market leader.

The divestitures we've made in the 1980s have produced $9 billion in cash, which has been used for acquisitions to strengthen our 14 key businesses. In 1988, we purchased Borg-Warner's chemicals businesses to expand GE Plastics' global market basket. In addition, we bought the Roper Corporation to strengthen the position of GE Appliances in the domestic range market. GE Financial Services (GEFS) acquired the credit card business of Montgomery Ward, a move that effectively doubled our private-label credit card assets and enhanced our number one position in that market segment. GEFS' 1988 integration of the 1987 Gelco acquisition created a leading position in automotive fleet leasing as well as in the cargo shipping container business.

In all, we've invested some $16 billion in the 1980s on acquisitions. We would argue that some $15 billion of these funds has been very successfully invested. Only two niche electronics acquisitions — amounting to about $400 million — didn't pan out and were sold. Another $600 million invested in Kidder, Peabody has thus far had — for a variety of reasons — difficulty in reaching its potential. Even so, Kidder increased its 1988 earnings 20% to $46 million — admittedly a small part of the total GEFS net of $788 million; nevertheless, we see Kidder as a business with important synergies across GEFS that should become more significant in the 1990s.

This track record gives us confidence in the acquisition process as one of the means to strengthen our global leadership positions.

In addition to acquisitions, we continue to invest in alliances and joint ventures with other companies all over the globe to enhance our 14 key businesses. In 1988 alone, we concluded alliances between GE Lighting and Toshiba of Japan and between GE Motors and Bosch of West Germany, and we expanded an alliance between GE Electrical Distribution and Control and Fuji.

Finally, in early 1989, we signed a series of historic agreements with GEC of the United Kingdom that will open the door to increased European participation by four of our 14 businesses — Medical Systems, Appliances, Industrial and Power Systems, and Electrical Distribution and Control. This move appears complicated on the surface because there are four businesses involved, but it is driven, once again, by the simple strategy dictating that we advance our 14 businesses, on a global basis, whenever we can, consistent with a consistent strategy.

In addition to acquiring, divesting and forming alliances to support these key businesses, we continue to supply them with resources to propel their internal growth — investing close to $16 billion since 1981. In 1988, we made a multiyear, $1.8 billion commitment to build a Spanish plastics complex that will supply the European market, we committed another billion dollars to further fuel the strong growth of GE Financial Services, and we spent a total of more than $1.8 billion on new plant and equipment. Another $3.6 billion — about $1.2 billion funded by the Company — was spent on research and development, almost exclusively in support of these 14 key businesses.

Chairman of the Board and Chief Executive Officer John F. Welch, Jr. (center) is flanked by Vice Chairman of the Board and Executive Officer Lawrence A. Bossidy (left) and Vice Chairman of the Board and Executive Officer Edward E. Hood, Jr. (right).

To those who perceive us as institutionally fickle, we would point to two of our key 14 businesses — Transportation Systems, which is mainly locomotives, and Industrial and Power Systems. Both went through purgatory in the 1980s, in the bottom of market troughs of several years' duration that saw few orders in locomotives and none in large steam turbines.

Instead of closing or selling these businesses, we reduced their costs consistent with the market, invested to make them more competitive ($300 million in locomotives alone) and stuck with them through the lean years — not out of sentimentality or inertia but because they are large, world-leading businesses with big potential and because doing so fits our strategy. And in 1988, we saw a significant market revival under way in locomotives and the approaching dawn of a revival in areas of the turbine business.

That, then, is the first part of our strategy: Creating a company consisting only of world-class global businesses that can compete and win in the 1990s and beyond. The focus of our R&D, investment, acquisitions and alliances — everything we do — is ensuring the growth and vitality of those businesses.

The second part of the strategy, as we mentioned, is making this $50 billion enterprise as lean, as agile and as light on its feet as a small company — a big company with the heart and hunger of a small one.

We've been grappling with how to achieve this unbeatable amalgam for the entire decade, and, while we haven't yet achieved it, our progress is accelerating. Once again, the actions we have taken are totally consistent with our oft-stated theory of the case.

We believed layers of management were "big-company" encumbrances — so we reduced ours from nine to as few as four, from us in the Corporate Executive Office to the factory floor of any given business. In the mid-1980s, we made a calculated gamble and removed the entire second and third echelons of management in the Company — layers we called sectors and groups. The 14 key businesses now report not, as often in the past, to senior vice presidents who report to executive vice presidents — all with staff entourages — but directly to us three. This arrangement is dependent for its success on the quality of leadership at the business level. We gambled that we had that quality, and we won. The new arrangement has proved breathtakingly clean, simple and effective. Ideas, initiatives and decisions move, often at the speed of sound — voices — where once they were muffled and garbled by a gauntlet of approvals and the oppressive ministrations of staff reviews.

Secondly, we found ourselves in the early 1980s with corporate and business staffs that were viewed — and

viewed themselves — as monitors, checkers, kibitzers and approvers. We changed that view and that mission to the point where staff now sees itself as facilitator, advisor and partner of operations — with a growing sense of satisfaction and cooperation on both sides. Territoriality has given way to a growing sense of unity and common purpose.

The third step toward a small-company management system began in 1988 when we formulated and began planning a project we call "work-out." This will be an intense and continuing program, conducted within the businesses and with support from the Company's management institute, to "liberate" the employees of our Company from the cramping artifacts that pile up in the dusty attics of century-old companies: the reports, meetings, rituals, approvals, controls and forests of paper that often seem necessary until they are removed.

As we succeed over the next three years in ridding our Company of the tentacles of ritual and bureaucracy, we are now better able to attack the final, and perhaps the most difficult, challenge of all. And that is the empowering of our 300,000 people, the releasing of their creativity and ambition, the direct coupling of their jobs with some positive effect on the quality of a product or service. We want each man and woman in this Company to see a connection between what he or she does all day — and winning in the marketplace. Their roles, responsibilities and rewards must become clear to them and to everyone. Small companies thrive and grow on that sense of contribution and reward. We want it as well, and everything we do to evolve our management system will be consistent with getting it.

Liberation and empowerment, as we use the concept, stems from what we believe is a very solidly grounded view of winning and losing around the world. We, as a globally competing company, have some serious disadvantages as we line up against our foreign competitors. Some of those competitors enjoy protection from foreign inroads into their markets; others are financially supported by their governments. Some are beneficiaries of nationally focused R&D in key technologies. Others are part of regimented, paternalistic cultures that serve them well.

We complain, on occasion, about all of this, but it is we who have the ultimate advantage, one that few of us, if pressed, would ever wish to trade. It is the fact that we are, despite our mix of global cultures and enterprises, an American company; and, as such, our system, while providing no guarantees, also has the fewest barriers to innovation, boldness and risk-taking — the stuff that will propel the real winners in the 1990s.

And that's the "why" behind our program of liberation and empowerment — more fulfilling work for all and greater competitiveness for our Company. The worst thing we could do is to stifle with bureaucracy our employees — the Americans and Germans, the French and Japanese, and the scores of other nationalities that are now part of the global GE. If we did, we would then have none of the advantages of our competitors — and many of the encumbrances that burden them all. We won't let that happen.

If we can become that big-company/small-company hybrid while pursuing our global strategies and encouraging even more boldness in the leadership of our businesses, we will be within striking distance of the goal we set out in pursuit of eight years ago: We will be a more contemporary, more accessible, more responsive company, in touch with our customers, firmly in control of our own destiny, driven by more-fulfilled people in control of theirs.

We are on the brink of the most exciting and opportunity-rich decade in world business history. We approach it with a strategy that has been both consistent and very successful during the 1980s. If this summary of the strategy we have once again presented in this letter is clear, you will have no difficulty understanding everything we do in the 1990s.

And we intend to do a lot.

John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer

Lawrence A. Bossidy
Vice Chairman of the Board and
Executive Officer

Edward E. Hood, Jr.
Vice Chairman of the Board and
Executive Officer

February 10, 1989

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Manager Carla Knauer (left) of the Virginia Beach, Va., store discusses new credit programs with Tom Doyle and Kim Luckes of Montgomery Ward Credit Corporation, which is now part of GE Financial Services.

GE Financial Services (GEFS) had strong growth in 1988. One of the most diversified participants in the global financial services market, it reached almost $75 billion in assets, an increase of about $14 billion, and grew earnings 43% to $788 million.

GEFS has three subsidiaries — GE Capital Corporation, Employers Reinsurance Corporation and Kidder, Peabody Group — that operate 17 different financial and asset management businesses.

GE Capital, with $42 billion in earning assets, is a major supplier of capital and financial expertise to U.S. business. During 1988, it made gains in retailer financing, commercial real estate, fleet leasing, corporate restructurings, auto auctions and mortgage insurance. It also gained a first-place position in container leasing.

In private-label credit cards, GE Capital acquired the Montgomery Ward Credit Corporation and its six million active customers. With this portfolio, GE Capital now authorizes more than three million consumer purchases each week.

This transaction was part of a $3.8 billion leveraged buyout of Montgomery Ward & Co., a deal also partially financed by GEFS.

GE Capital's commercial real estate operation expanded its earning assets in 1988 by continuing to focus on its highly successful approach of financing well-utilized existing properties.

Full-service leasing also continued to expand. One of GE Capital's fastest-growing areas, it includes auto and truck leasing; trailer and space leasing; the leasing of more than 47,000 railcars; Genstar Container Corporation, the world's largest lessor of shipping containers; and Polaris Aircraft Leasing, the world's largest lessor of commercial jet aircraft. Another area of service involves 18 auto auctions.

In addition, GE Capital strengthened its position in truck leasing by forming a joint venture with the Penske Corporation. When combined with GE Capital's existing fleet, the resulting business has more than $1.5 billion in assets and 55,000 vehicles.

In structuring and financing leveraged buyouts and corporate restructurings, GE Capital continued its conservative but creative approach. In addition to the Montgomery Ward transaction, it provided financial restructuring services for customers in the communications, financial services, medical, retail and manufacturing markets. This GE Capital business also expanded geographic bases in Canada and the United Kingdom in 1988.

Also during the year, GE Capital arranged to acquire, subject to certain approvals, FGIC Corporation, an insurer of municipal bonds. In mortgage insurance, GE Capital acquired Foremost Mortgage Insurance of Wisconsin.

Employers Reinsurance Corporation, the second largest property and casualty reinsurer in the United States and fourth largest in the world, increased its net written premiums and earnings again in 1988. This company, with $4 billion in assets, has increased earnings each year since it was acquired in 1984.

Kidder, Peabody spent 1988 repositioning to meet the future in its highly competitive trading, retail brokerage, institutional brokerage and investment banking fields. Kidder, Peabody's operations were profitable in 1988.

One of GEFS' strongest 1988 thrusts was into foreign markets as non-U.S. assets more than tripled to $3.5 billion.

Plastic parts for tomorrow's automobiles go through a series of tests at GE's Application Development Center in Southfield, Mich. Reviewing test results are (left to right) Susan Nasiatka, Tracy Williamson, Doug Wright, Ray Kolberg and Tony Kieliszewski.

GE Plastics marked a true milestone year in 1988 as this business prepares for another decade of growth in the 1990s.

This business saw its third straight year of record sales and earnings. Even more important was the acquisition in September of Borg-Warner's chemicals businesses, the world's largest producer of ABS thermoplastics. ABS is one of industry's most versatile materials and is highly complementary to GE Plastics' existing materials portfolio.

The two businesses will combine excellent commercial teams and similar global marketing strategies. The Cycolac® ABS resin line will be one of the first products to go into production at GE's recently announced European expansion in Cartagena, Spain.

In the Far East, a new ABS resin compounding plant will be built in Hong Kong. A new polycarbonate pilot plant, utilizing a new polymer process, was recently completed in Japan; and a new technical center and compounding plant are under way in Korea.

Complementing this growing worldwide manufacturing network is a recently formed global marketing organization. The new group is dedicated to providing a single, focused product and market strategy that addresses the growing international markets of today.

Major markets for the plastics business will continue to be led by the automotive industry. A good example: The 1989 Cadillac Fleetwood and DeVille models feature the enhanced value of impact-resistant front fenders made from Noryl® GTX resin while the body side cladding is made from Xenoy® resin and the front fascia and rear fender extensions are made from Lomod® engineering elastomers, all from GE Plastics.

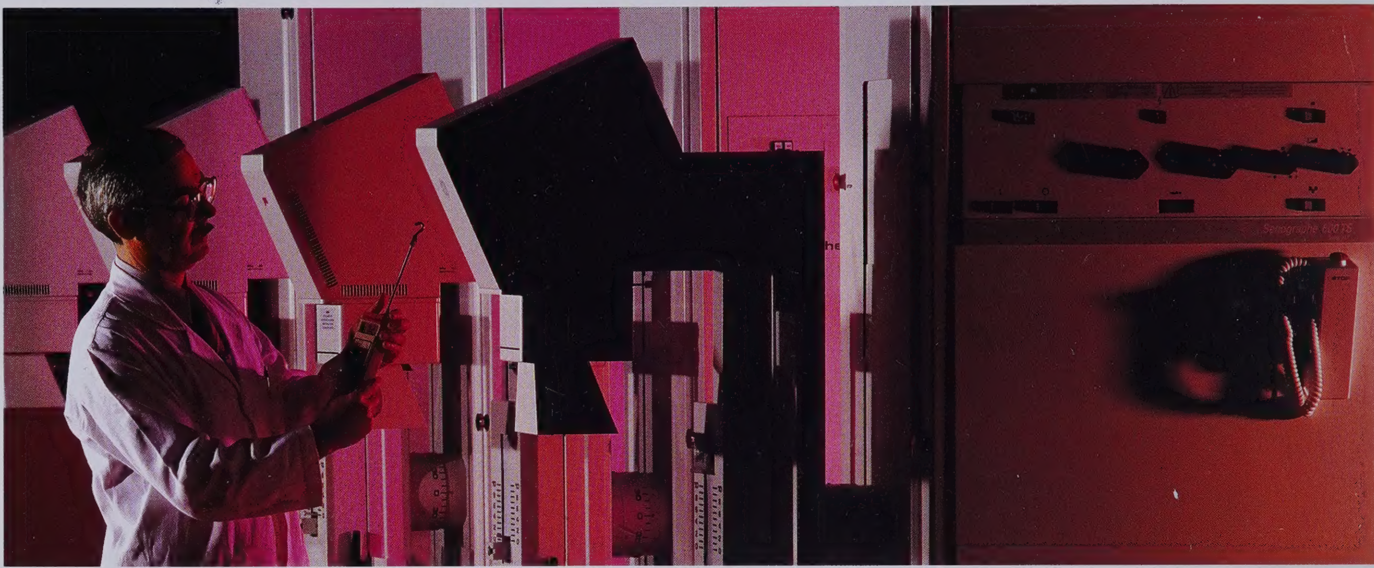
Work continues on the GE Plastics "Living Environments" concept house in Pittsfield, Mass. It is a working laboratory for the building and construction industry. The initial step will be pouring the foundation using unique, lightweight forms made from a GE Plastics material.

In the packaging industry, a patented new PPO® foam tray is being introduced for the fast-growing microwave-ready food market.

All of these market innovations require advanced polymer processing technology. To that end, GE is establishing a major process development center in Pittsfield. The facility, over 100,000 square feet in size, will feature the Alpha I machine, the world's largest, most advanced multiprocess machine for plastics. The new facility is seen as a key resource in maintaining world leadership in the high-performance plastics business.

Along with thermoplastics, GE Plastics also markets several other high-performance materials. For example, GE Silicones recently announced a significant breakthrough in UV-curable epoxy-silicone technology. The new, solventless material, which was developed jointly with the Company's Research and Development Center in Schenectady, N.Y., will initially be used in a coating system for labels, tapes and other pressure-sensitive adhesives.

GE Superabrasives, which began with GE's invention of Man-Made™ diamonds, today produces a broad range of abrasive materials for high-tolerance applications in the worldwide construction, automotive and aerospace industries.



Technician Elie Cadiou of General Electric CGR checks new Senographe™ 600TS x-ray systems in production at Stains, France.

GE Medical Systems achieved strong gains in orders, sales and earnings over the record levels posted in 1987.

Several product lines drove these excellent results, especially magnetic resonance (MR). The MR business returned profits for the first time in 1988 after investments of about $300 million since 1979.

Today, the Company has more CT scanners and more MR systems installed worldwide than any other manufacturer. Both types of imaging systems were pioneered by GE's Research and Development Center.

GE's participation in diagnostic imaging markets was substantially boosted in 1988 by the integration of CGR into its global operations and by the launch of GE Medical Systems-Asia, a new manufacturing, marketing, sales and service organization in the Far East. CGR was acquired from Thomson, S.A. of France in late 1987.

General Electric CGR, the combination of CGR and existing operations in Europe, and GE Medical Systems-Asia give GE a highly competitive position in Europe and the Far East — two of the world's largest medical equipment markets — in addition to its already leading position in the U.S. market.

Globalization also has provided substantial benefits in technology, products and human resources.

General Electric CGR, for example, adds a world-class x-ray team with leadership products such as Senographe™ x-ray mammography systems, advanced vascular systems, remote-control systems and radiotherapy equipment. The new Radius™ Doppler system with innovative radial array technology was introduced, giving GE an exceptionally strong entry in the premium segment of the ultrasound market. A new Paris headquarters facility has allowed the various management functions to be consolidated at one location.

From the other side of the world, GE's 75%-owned Japanese joint venture, Yokogawa Medical Systems (YMS), contributes a line of imaging products to GE customers around the globe. These include the self-shielded MR Max™ midfield magnetic resonance system and an extensive line of outstanding ultrasound products. YMS' broad CT line was strengthened by the debut of the new CT Max™ 640 scanner with enhanced image display.

Meanwhile, the U.S. arm of GE Medical Systems continues to lead the way in the premium MR and CT segments with products such as the Signa® system and the CT 9800 Quick scanner. They both maintained their technical pre-eminence with software improvements that extend their performance and versatility.

Other major product introductions included a new Advantx™ digital x-ray system for angiography and the new Starcam™ 2000/3000 nuclear imaging line that features rectangular-field detector technology.

While technical pre-eminence is required in the global diagnostic imaging market, customer service and satisfaction also are keys to achieving market differentiation and a sustainable competitive advantage.

In 1988, GE Medical Systems continued to expand its offering of customer-oriented services and support. Included were innovative financing packages, new equipment maintenance options and a renewed commitment to product quality and market responsiveness.

Brandon Tartikoff (center), president of NBC Entertainment and NBC Productions, talks about an upcoming entertainment show with programming executives Tom Gabbay and Charisse McGhee.

The National Broadcasting Company (NBC) held its commanding lead as the nation's most successful and profitable television network in 1988 while exploring new cable opportunities in the rapidly changing marketplace.

For the fourth year in a row, NBC led in prime-time ratings, winning 47 of 52 weeks. Television advertising revenues are based on ratings performance.

Heading the NBC cast of programs was "The Cosby Show," which entered its fifth season as TV's highest-rated series. "Cosby," "Cheers," "A Different World," "Golden Girls" and two new hit comedies, "Empty Nest" and "Dear John," gave NBC six of the top 10 series at year's end.

"Today," "The Tonight Show Starring Johnny Carson" and "Late Night With David Letterman" continued to outpace their competition. Furthering its innovative leadership in late-night television, NBC successfully launched the talk show "Later With Bob Costas."

It was an extremely busy year in TV journalism. In presidential primary, convention, debate and election coverage, NBC was the most-watched network. In addition, an agreement with Reuters and the BBC gave NBC News a 38% interest in Visnews, a worldwide video news gathering organization.

NBC Sports also had an exciting year, covering both the 1988 Summer Olympic Games and the 1988 World Series, and followed that with Super Bowl XXIII in early 1989.

NBC, which also won U.S. broadcast rights to the 1992 Summer Games, dominated the ratings during the 180 hours devoted to the XXIV Olympiad at Seoul, South Korea. For the five-game World Series between the Los Angeles Dodgers and Oakland Athletics, NBC's ratings exceeded what ABC had drawn in the first five games of the 1987 Series.

The NBC Network currently serves more than 200 affiliated stations in the United States. In addition, NBC owns and operates seven TV stations located in Chicago, Cleveland, Denver, Los Angeles, Miami, New York and Washington, D.C.

During 1988, NBC sold all but one of its eight radio stations as part of a planned exit from the radio business.

The Federal Communications Commission tentatively ruled that any future high-definition television system for U.S. broadcasters should be compatible with existing home TV receivers. This is a favorable development for viewers who currently rely on terrestrial broadcasting or cable and for the Advanced Compatible Television (ACTV) system sponsored by NBC and others.

Taking a major step into the cable TV business in 1988, NBC announced the formation of CNBC, the Consumer News and Business Channel — a 24-hour, consumer-oriented business news program service. CNBC is scheduled to begin in 1989 with about 10 million subscribers.

NBC also announced a major cable programming venture with Cablevision Systems Corporation under which NBC will obtain 50% of Cablevision's interest in nine programming services. This includes SportsChannel America, a new national cable service that NBC will help develop and manage. NBC also will pioneer the development of a 1992 Summer Olympics package for pay-per-view cable, which will be in addition to its free over-the-air coverage to U.S. homes.

A new division, NBC Cable, was created to manage these and other cable TV and media initiatives.

Aircraft Engines

Qantas took delivery of its first GE-powered aircraft, this Boeing 767 with CF6-80C2 engines, during 1988.

GE Aircraft Engines extended its long string of global successes in the commercial, military, marine and industrial engine and aviation service markets during 1988.

For example, seven new customers ordered the CF6-80C2 engine for their new commercial widebody aircraft, bringing to 41 the total number of CF6-80C2 customers. Once again, this popular GE engine was the world's best-selling high-thrust engine.

GE is determined to maintain that leadership well into the 1990s with the continuing development of the CF6-80E1 engine. This advanced version provides for a future performance capability in excess of 70,000 pounds of thrust for the heavier twinjets of the future.

The CFM56 engine, marketed by GE and SNECMA of France, continued its record-breaking sales performance. More than $6 billion worth of CFM56 orders were announced in 1988 alone to power Airbus A320s and A340s, Boeing 737s, U.S. Air Force KC-135R tankers and other military aircraft.

Because of enormous demand for the 737 family of twinjets, Boeing announced a production increase to 17 aircraft per month. Each is powered by CFM56 engines.

The CFM56 engine has been selected for the majority of A320s on order worldwide. Significant customers included Lufthansa, Northwest and All Nippon Airways. Work also has begun on an increased-thrust version of the engine to power the new long-range A340 aircraft, which is scheduled to enter service in 1992.

GE continues to take the lead in new aviation engine technology with further development of its UDF® engine, which may revolutionize the industry over the next decade by drastically reducing fuel consumption compared with today's commercial engines. The UDF® engine continues to be actively considered for short-to-medium-range aircraft for the 1990s.

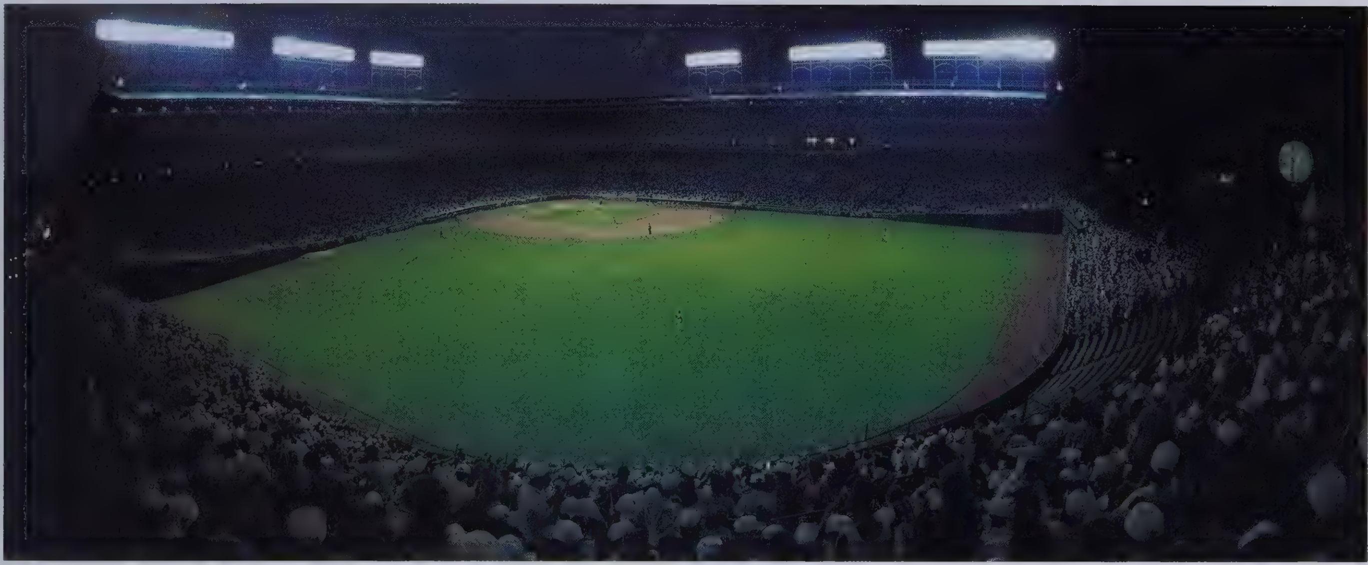
GE's military engines scored several important wins in 1988. The T700 engine received a third multi-year procurement contract from the U.S. Army to power Black Hawk and Seahawk helicopters. The U.S. Navy selected Lockheed's antisubmarine aircraft, which launched the new GE38 turboprop engine.

Also, GE's F110 fighter engine continues in production for F-16s for the U.S. Air Force and five foreign governments as well as for the U.S. Navy's F-14s. Technical advancements are being incorporated into the F110 Increased Performance Engine now competing for use on the U.S. Air Force's upgraded jet fighters. Switzerland and Kuwait ordered F/A-18 jet fighters, which are powered by GE's F404 engines.

The Air Force also unveiled the B-2 Advanced Tactical Bomber, powered by F118 engines from GE. Engines for the Navy's Advanced Tactical Aircraft and the Air Force's Advanced Tactical Fighter also are under development for the 1990s.

Adding to the 1988 success story, the LM2500 marine engine was selected by two more navies to power surface vessels, bringing the current world total to 19 GE-powered navies.

Recognizing the critical role customer service has played in GE's attaining its current world leadership position, GE is placing an even greater emphasis on serving customers. By continuing to improve its global network of product service and support for an expanded customer base, GE Aircraft Engines aims to ensure continued success well into the future.



Night baseball finally came to Chicago's Wrigley Field in 1988 with illumination provided by 546 GE Powr•Spot® floodlights using Multi-Vapor® metal halide lamps from GE.

GE Lighting took initiatives during 1988 to enhance its international presence while simultaneously strengthening its lighting leadership in the U.S. market and continuing its emphasis on new product development.

Internationally, GE Lighting accelerated the marketing of new energy-efficient lighting products in Europe. It also established a joint venture with Toshiba of Japan to conduct research and development programs, to jointly manufacture lighting products and to participate in market development opportunities in the Asia-Pacific region.

Domestically, GE Lighting posted substantial productivity improvements, providing funds for investment in new programs and new products. It also improved its customer service with the implementation of an innovative distribution program called "Lighting Express."

A key feature of the "Lighting Express" program was the consolidation of 25 order entry facilities into one world-class customer service center in Richmond, Va.

In addition, GE Lighting integrated its U.S. distribution facilities into nine key centers, an action that improved customer delivery times and increased order fill rates while at the same time reducing inventories and improving productivity.

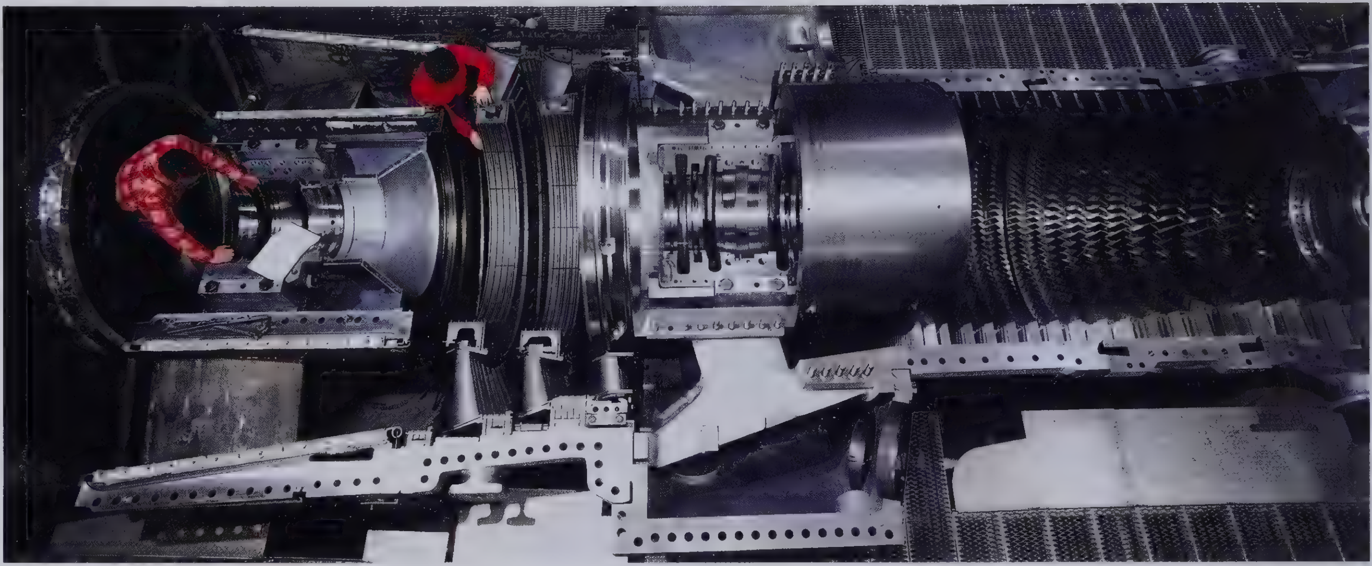
The largest lighting manufacturer in North America, GE Lighting currently offers more than 6,000 different lighting products for the commercial, industrial and consumer markets. These include incandescent, fluorescent, high intensity discharge, halogen and specialty lamps.

Consumer preference for GE's wide range of lighting products was boosted in 1988 by strong TV and print advertising programs aimed at reinforcing brand awareness. In addition, GE Lighting began sponsorship of the IllumiNations light show at EPCOT Center in Florida's Walt Disney World. This nightly extravaganza features five miles of GE light bulbs and will be seen annually by nine million visitors.

Looking to the future, GE Lighting's research has generated technical developments that are creating advances for headlamps on the cars of tomorrow. New arc discharge headlamp systems, for example, will produce light comparable to that of present composite lamps but will require less space.

In addition, GE's new high-lumen, biax fluorescent lamps are gaining enthusiastic acceptance among customers based on the lamps' efficiency, compactness and color rendition.

Other 1988 highlights included the design of a new lighting system for the Washington Monument with GE lamps and fixtures providing bright, energy-efficient lighting for the landmark, and the lighting of the National Christmas Tree in Washington, D.C., for the 25th year. GE Lighting also added Chicago's Wrigley Field, home of the baseball Cubs, and Philadelphia's Veterans Stadium, home of the baseball Phillies and football Eagles, to the long list of sports stadiums lighted by GE.



Technicians in Greenville, S.C., work on one of three GE gas turbines being prepared for export to Egypt for use in a power plant.

GE Industrial and Power Systems continued to face accelerated change in its markets during 1988.

Major global alliances and mergers restructured the competitive landscape, resulting in fewer but more formidable competitors as the suppliers of power generation and delivery equipment move aggressively to gain economies of scale and greater access to world markets.

Already well established in world markets with $5 billion in sales, this GE business moved to strengthen its global base in 1988. It now has 74 alliances with 63 different companies around the globe, and it is actively exploring other alliances that could bring additional technical and global marketing strengths.

Success in penetrating offshore markets has helped offset a soft domestic market in recent years. Foreign shipments accounted for over one-third of power generation revenues in 1988. Over 20% of the current backlog is slated for offshore installation, including large steam turbine-generators for Korea, Taiwan and China.

GE also received a $93 million commitment from the Taiwan Power Company for two flue gas desulfurization systems, beating out seven international competitors.

A transition for this business began in 1988 as emphasis shifted from an era of downsizing to selective rebuilding. Faced with intensified global competition and the prospects of a more robust market in the 1990s, GE moved forward on programs to improve its competitive stance in all major product lines.

For example, on the heels of spending more than $400 million on restructuring and consolidation, GE has earmarked an additional $500 million for reinvestment in the 1988-1991 time frame. Technology development continued to receive high priority as GE moved to advance world leadership positions in its turbine and other industrial and power systems businesses.

This technology leadership is most evident in today's worldwide interest and acceptance of the new "F" gas turbine models. A 7F unit, which set new standards for efficient use of fuel, was shipped to Virginia Electric Power in 1988.

GE's advanced solid-state meters and electronic relays are winning wide acceptance in transmission and distribution. Advances in industrial drives and controls have resulted in improved quality for steel mills and other customers.

Another priority is sustaining GE's superior customer service.

Engineering and manufacturing resources, for example, are focused on programs that support the 12,000 GE turbines operating in 97 countries. Upgrade programs for older GE steam and gas turbines not only extend productive life but also improve efficiencies.

GE Nuclear Energy continues its commitment to provide customers with the highest quality support services and to be on the leading edge of nuclear fuel technology.

Other customer service programs are focused on reducing delivery cycles for critical parts and improving GE's field service network.

Prospects for the 1990s are encouraging. Key industries, such as paper and metals, are reinvesting to improve their competitiveness. There also are signs that a long-awaited reinvestment in the U.S. utility infrastructure is beginning. Maintaining a strong competitive position will be key to GE participation in what promises to be a strong market with fierce competition.

This totally GE-equipped kitchen includes a gas cooktop and other major appliances designed with convenient features to make life easier and more enjoyable for homemakers.

GE Appliances made significant strides during the year to strengthen its position in both domestic and world markets, driven by its long-term strategy to concentrate resources in core product lines.

The 1988 acquisition of the Roper Corporation and its range manufacturing facilities, for example, served to increase GE's position in the gas range market. GE Appliances has been in this market for only three years and already is an industry leader.

The total U.S. market leader in major appliances with $5 billion in revenues, GE once again added to its reputation for quality service and innovative product design in 1988.

In customer service, the U.S. Office of Consumer Affairs named The GE Answer Center® service as the state-of-the-art toll-free customer assistance number now operating in the United States.

In product design, the GE brand dishwasher was selected by *Fortune* magazine as one of the year's top 100 quality products. And the custom-kitchen Monogram line of built-in appliances was recognized as among the outstanding new product designs by *Business Week* magazine.

Serving the high-end kitchen design market, the Monogram line added three new product offerings in 1988. Included were 24-inch counter-depth refrigerators with ice and water dispensers in the doors, downdraft modular cooktops and gas-fueled cooktops.

Rounding out the third phase of its investment in top-mount, no-frost refrigerators, GE Appliances introduced new 18- and 19-cubic-foot models. They include features that have been popular with consumers on larger models, such as deep-door storage and increased internal capacity.

Because of high dealer interest and consumer trust in the image and quality of the RCA brand, GE Appliances will add RCA to its existing GE, Monogram and Hotpoint brand names. Beginning in 1989, a full line of RCA appliances will be distributed directly to dealers through GE Appliances' sales and distribution organization.

The Hotpoint line of appliances, known for reliability and durability, has been enhanced with such full-featured models as a 27-cubic-foot side-by-side refrigerator with Refreshment Center.

GE Appliances also made strong gains in the private-label market to hedge against a mature appliance industry in the United States. In particular, it began manufacturing refrigerators and ranges for Sears under the Kenmore label.

In addition, GE is participating in Sears' nationwide rollout of "Brand Central" centers. At these centers, the GE brand will be available in such major appliances as refrigerators, cooking products, dishwashers and home laundry equipment.

During 1988, GE Appliances experienced a problem with a new type of rotary compressor in certain large refrigerator models. There is no safety issue involved, and the business is in the midst of an active campaign to replace every one of these compressors with minimum inconvenience to customers. The aim is to come out of this situation with the Company's reputation for customer support and satisfaction not only intact but — if anything — enhanced.

A world leader in solid-state radar technology, GE currently has orders for or has delivered more than 90 of these long-range air defense systems.

GE Aerospace is one of the largest and most diversified manufacturers in its field.

With annual sales over $5 billion, GE Aerospace is a leader in many product lines. These range from radar air defense systems to communications systems and satellites. They also include military data systems, visual simulation systems, aircraft electronics, automated test systems, submarine combat systems, armament systems, transmissions and turret stabilization systems for tracked vehicles, fire control and guidance systems, and surface ship sonar.

In the face of intensifying competition and a slightly declining domestic market, GE Aerospace experienced a 13% improvement in orders in 1988. It also took aggressive action to provide for future competitiveness by streamlining its organization to reflect market trends, by reducing costs significantly and by increasing productivity.

Building on its tradition in space programs, GE Aerospace won a contract worth over $260 million to provide NASA's Second Tracking and Data Relay Satellite System Ground Terminal.

Nine new GE-built satellites were launched during the year. GE television cameras and radios performed flawlessly as America's space shuttle returned to flight status.

In addition, GE Aerospace was awarded a five-year, $235 million contract for systems engineering and integration for the nation's Strategic Defense Initiative program. In the radar business, orders were received for the manufacture and installation of solid-state radars in Iceland and West Germany.

Two U.S. Navy cruisers equipped with the GE-developed Aegis fleet air defense system were commissioned in 1988. Aegis systems were delivered for three ships, and production was under way for use on 16 other cruisers and destroyers.

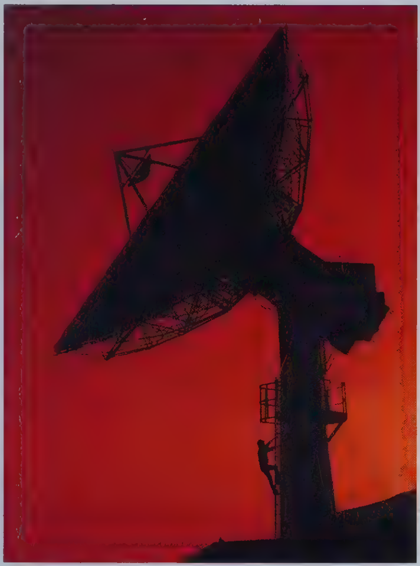
The U.S. Navy also awarded GE Aerospace a $277 million contract for the integration of antisubmarine warfare systems on surface ships. During 1988, work also progressed on a program to design and develop a combat system for the U.S. Navy's new Seawolf submarine.

Other highlights for this business in 1988 included a contract from the U.S. Navy to study an anti air defense system for NATO. GE heads a multinational team of 10 companies on this project.

Another major development was a $90 million contract from the U.S. Navy for an air defense system for the Japanese Maritime Self-Defense Force.

GE continues a vigorous program within GE Aerospace and other businesses holding U.S. government contracts to comply with contracting and procurement regulations and to self-police its contracting activities.

Despite this, GE was indicted in November 1988 for alleged acts that occurred in 1983 in MATSCO, a subsidiary of GE Aerospace. The Company views this indictment as unfair and overreaching and intends to defend itself at trial.



GE Americom's large dish-like antennas in New Jersey and California keep track of GE's fleet of orbiting communications satellites.

GE Communications and Services provides communications equipment and services, information services, installation services and facility maintenance for businesses, governments and individuals that use satellites, computers and other advanced technologies.

This business, which had revenues of more than $1.6 billion and record earnings in 1988, is composed of five diverse operating units. Sale of a sixth unit, GE Computer Service, is expected to be completed during 1989.

GE American Communications (Americom) continued its leadership in domestic commercial satellite services in 1988. It was awarded a long-term contract with Alascom, the Alaskan longlines phone company, for up to 16 transponders on a new satellite to replace Alascom's present satellite in 1991.

GE Information Services has one of the world's largest commercially available teleprocessing networks. It offers a broad range of technically advanced computing and value-added communications services for network-based business applications and systems integration. For example, it provides the worldwide dealer communications system for Apple Computer. It also offers a system that allows treasury managers at international banks to monitor and control the risk of dealing in international currency markets.

GE Consulting Services, an information systems and professional service consulting company, provides custom software solutions to communications, financial and manufacturing clients.

GE Mobile Communications meets the growing need for mobile land-based communications with products ranging from hand-held two-way radios and cellular telephones to new trunking systems. In 1988, it started shipping the largest international order in its history — a $35 million contract from the Kingdom of Jordan.

GE Government Services performs various technical, professional and management services in the United States and abroad for government customers and GE components. In 1988, it won a contract to provide and maintain aerostats, which are tethered, radar-equipped balloon surveillance systems, for U.S. Customs Service use in the federal government's drug interdiction program.

Electrical Distribution and Control

In addition to approaching the billion-dollar sales mark during the year, GE Electrical Distribution and Control made significant advances in the areas of cost-competitiveness and strategic alliances.

Despite higher-than-anticipated cost increases for commodities and steel, this business continued to achieve strong earnings growth due to record working-capital turnover and improved productivity. It also concluded the final phase of a major capital investment project, including the automation of a lighting panelboard facility in Salisbury, N.C., that furthers the Company's competitiveness in rapidly developing international markets.

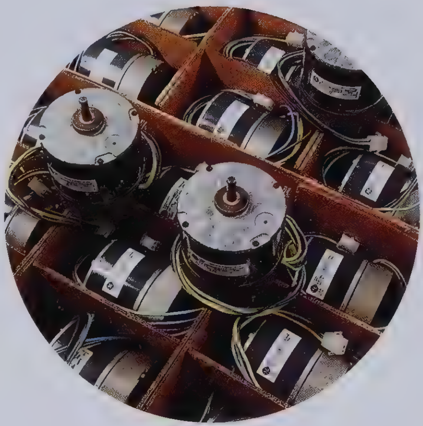
As an industry leader in the manufacture of products for the distribution, control and protection of electrical power, GE continued its program of introducing innovative products to the marketplace.

A newly designed safety switch, molded from Valox® thermoplastic from GE, met strong acceptance in the growing retail home improvement market. The unit offers the do-it-yourself consumer significantly improved product features and benefits while providing the business with increased cost advantages. Additional new "automation-designed" products will be introduced to the market during 1989.

GE Electrical Distribution and Control also announced a sales joint venture in the Middle East and Southeast Asia as another step in strengthening its previously announced strategic alliance with Fuji Electric of Japan. In addition, the Company continues to explore opportunities with potential partners in Europe and North America to increase the global competitiveness of this business.

Completed circuit breaker panelboards glide down conveyors past Wayne Mosher at the highly automated Salisbury, N.C., plant.

Motors



New motors from GE, awaiting installation into Trane variable speed heat pumps and air conditioners, help make the units more efficient.

GE Motors made several strategic moves in 1988 to build on its position as the world's leading producer of electric motors.

GE strengthened its technology leadership with the introduction of variable speed, electronically commutated motors and controls for advanced heating and air conditioning systems that offer greatly increased efficiencies.

GE Motors also produced a new line of dishwasher and dryer motors for major appliances. In addition, it introduced a line of industrial motors with industry-leading operating efficiencies and continued to expand its designs for the growing leisure markets encompassing pools, spas and exercise machines.

The business improved its global position with production increases at two joint ventures in Korea that supply industrial, air conditioning and appliance motors to local and world markets.

GE Motors also won a major contract from Ford to enter the expanding market for small automotive motors. These motors, initially for climate control and engine cooling applications, may later be used for power windows and windscreen systems. They will be produced in a new 50/50 joint venture with Robert Bosch of West Germany.

Transportation Systems

Building on the leadership position established by its Dash 8 locomotive, GE Transportation Systems is implementing a service-driven organization, pursuing global partnerships and continually improving its cost structure.

The Dash 8 delivers new value to railroads worldwide as a result of GE programs to boost horsepower and tractive effort while improving fuel efficiency and reliability.

The service structure of GE Transportation Systems encompasses full-service support of LMX "power-by-the-hour" locomotives. It also includes partial service in support of performance guarantees for the Union Pacific and Southern Pacific railroads. In addition, GE offers customers several options for remanufactured equipment.

Alliances beyond the U.S. borders have produced the Company's first Dash 8 locomotive order from Canada and five successful bids totaling 40 locomotives for Australian railroads. In addition, a new agreement with Mitsui will help secure financing for equipment sales to third-world countries.

Orders in 1988 were the highest in recent years. They were led by Union Pacific's order for more than 100 locomotives included in a multi-year commitment based on performance guarantees in the agreement. CSX placed its first order for Dash 8s. Conrail, Norfolk Southern, Santa Fe, Southern Pacific, and the New York, Susquehanna and Western all added Dash 8s to existing fleets.

Union Pacific has the world's largest fleet of GE's Dash 8 locomotives, including these units in the North Platte, Neb., railroad yard.

Factory Automation

GE and GE Fanuc equipment controls this automated process for casting engine heads at GM's Saturn automobile plant being built in Tennessee.

GE Fanuc Automation Corporation, the 50/50 joint venture between GE and FANUC Limited of Japan, is achieving solid growth.

Despite consolidation moves by a number of major competitors, GE Fanuc Automation outperformed the market during 1988. It gained share in several major product areas, particularly in computer numerical controls for the machine tool market.

Early in 1988, GE Fanuc Automation Canada was established to take advantage of the expanding Canadian market. Another significant achievement was the product branding agreement with Combustion Engineering, a major supplier to the process industries.

GE International promotes the global competitiveness of GE's 14 key businesses.

Operating through regional centers and a country management system in major markets outside the Americas, the GE International organization achieved significant advances during 1988 in its primary roles of identifying and implementing global alliances, supporting major project sales, increasing the deployment of global resources and promoting an enhanced international awareness within GE.

Alliances that were announced in 1987 began to yield real benefits in 1988. The integration of CGR into GE Medical Systems was completed, creating a strong European presence for this important global business. The alliance of GE Electrical Distribution and Control with Fuji Electric has led to the pooling of sales and marketing activities in the Middle East and Southeast Asia.

In addition, GE Motors started up its joint ventures with Hyundai and Daewoo in Korea, and it agreed to form a joint venture with Robert Bosch of West Germany to make automotive motors in Tennessee. GE Lighting began operating two joint ventures with a Korean partner and announced an alliance with Toshiba of Japan. GE also reached agreement with the Spanish government on terms for a major investment to manufacture plastic materials in Spain.

In early 1989, GE and GEC of the United Kingdom reached agreements, subject to requisite government reviews, on a broad set of alliances in appliances, medical systems, electrical controls and, potentially, gas turbines. GE Aircraft Engines had previously teamed up with GEC-Ruston on helicopter engines and on a new small-aircraft engine.

There also was major progress in increasing international orders in 1988. This was led by GE's aircraft engine, medical systems, power systems, materials and aerospace businesses. Significant increases were recorded in Europe, Japan, the Middle East, Southern Asia and the Asia-Pacific region.

In Europe, GE is taking action now through acquisitions, alliances and business development to capitalize on major opportunities inherent in the 1992 opening of markets within the European Community, which has its headquarters (above) in Brussels, Belgium.

To support this growth of worldwide activity, GE continues to invest in recruiting, training and deploying people from many countries. With the increasing impact of European integration and the opening up of markets in the Soviet Union, India and China, GE is committed to staying ahead in the increasingly competitive global arena.

GE Canada is one of the top 60 companies in Canada and GE's largest international operation. In 1988, it had earnings (in Canadian dollars) of $75 million on sales of $1.6 billion.

About $276 million of those sales were for export from Canada. Over the past few years, GE Canada has changed its market mix and manufacturing operations to emphasize new growth opportunities overseas as well as in Canada.

In addition, the ratification of the U.S./Canada Free Trade Agreement is expected to open up more opportunities for GE Canada. It is working with GE businesses in the United States to identify opportunities for more effective integration of resources and activities on both sides of the border.

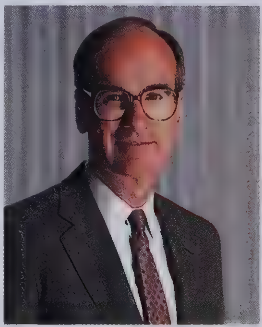
GE Supply sells over $1.1 billion of electrical products from GE and other companies to commercial, construction, industrial and utility customers.

In 1988, GE Supply began innovative marketing, sales and distribution programs to help the Company's industrial and lighting businesses grow in targeted markets. It supports other GE businesses by being a distributor of specialized spare parts to domestic and international customers.

Ladd Petroleum Corporation was able to maintain its reserves position in 1988 despite continued volatility in oil and gas prices.

One of the nation's 10 largest independent (non-major) oil and gas producers, Ladd provides a potential backup supply of petrochemical feedstock for GE Plastics and its newly acquired Borg-Warner businesses. It also supplies over 50% of the natural gas used at GE plants in the United States.

Board of Directors (As of February 10, 1989)



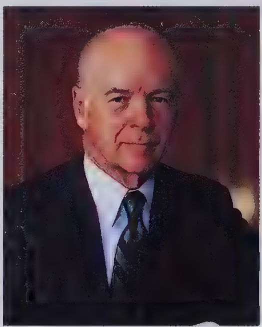
H. Brewster Atwater, Jr.
Chairman of the Board, Chief Executive Officer and Director, General Mills, Inc., consumer foods and restaurants, Minneapolis, Minn. Director since 1989.

Richard T. Baker
Consultant to Ernst & Whinney, public accountants, Cleveland, Ohio. Director since 1977.

Lawrence A. Bossidy
Vice Chairman of the Board, Executive Officer and Director, General Electric Company, Fairfield, Conn. Director since 1984.

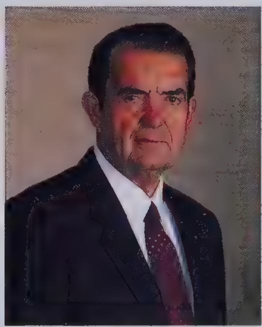
Charles D. Dickey, Jr.
Retired Chairman of the Board and Director, Scott Paper Company, Philadelphia, Pa. Director since 1972.

Lawrence E. Fouraker
Fellow, John F. Kennedy School of Government, Harvard University, Cambridge, Mass. Director since 1981.



Henry L. Hillman
Chairman of the Board and Director, The Hillman Company, diversified operations and investments, Pittsburgh, Pa. Director since 1972.

Edward E. Hood, Jr.
Vice Chairman of the Board, Executive Officer and Director, General Electric Company, Fairfield, Conn. Director since 1980.

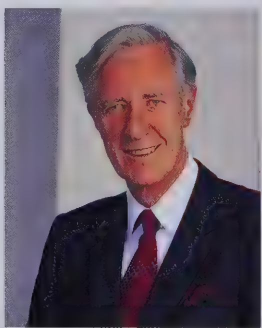


David C. Jones
Retired U.S. Air Force General and former Chairman of the Joint Chiefs of Staff, Washington, D.C. Director since 1986.

Robert E. Mercer
Chairman of the Board and Director, The Goodyear Tire & Rubber Company, Akron, Ohio. Director since 1984.

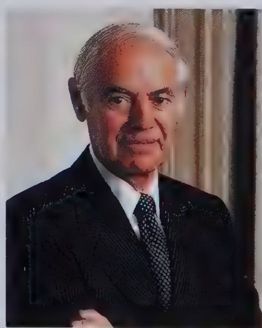
Gertrude G. Michelson
Senior Vice President–External Affairs and Director, R.H. Macy & Co., Inc., retailers, New York, N.Y. Director since 1976.

Lewis T. Preston
Chairman of the Board and Director, J.P. Morgan & Co. Incorporated and Morgan Guaranty Trust Company, New York, N.Y. Director since 1976.

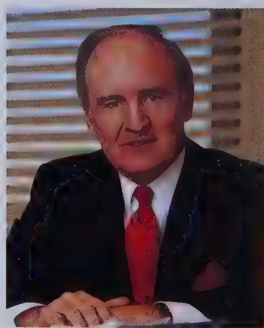


Frank H.T. Rhodes
President, Cornell University, Ithaca, N.Y. Director since 1984.

Andrew C. Sigler
Chairman of the Board, Chief Executive Officer and Director, Champion International Corporation, paper and forest products, Stamford, Conn. Director since 1984.



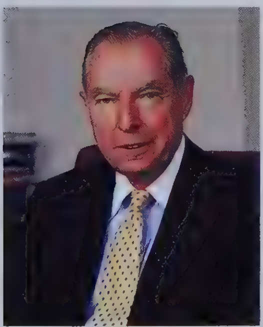
William French Smith
Senior partner, Gibson, Dunn & Crutcher, law firm, Los Angeles, Calif. Director since 1986.



John F. Welch, Jr.
Chairman of the Board, Chief Executive Officer and Director, General Electric Company, Fairfield, Conn. Director since 1980.

Henry H. Henley, Jr.
Retired Chairman of the Board, Chief Executive Officer and Director, Cluett, Peabody & Co., Inc., manufacturing and retailing of apparel, New York, N.Y. Director since 1972.

Barbara Scott Preiskel
Attorney, New York, N.Y. Director since 1982.



Walter B. Wriston
Retired Chairman of the Board and Director, Citicorp and Citibank, N.A., New York, N.Y. Director since 1962.

The entire GE family was saddened in December by the passing of Thornton F. Bradshaw, a member of the Board of Directors since 1986.

Mr. Bradshaw was chairman of RCA during the early 1980s and successfully led that company through turbulent times. After the acquisition of RCA by GE, his counsel, wisdom and concern for the people of both companies helped create a smooth, humane and highly successful combination. Mr. Bradshaw's business acumen and leadership were widely respected, but, for those who knew him, the warmth and charm of this decent and wonderful man are what will be most missed, and most remembered.

H. Brewster Atwater, Jr., chairman and chief executive officer of General Mills, Inc., was elected to the Board on February 10, 1989.

The Board held 10 regular meetings in 1988. In addition, the Directors participated on the following committees that aid the Board in its duties.

The *Audit Committee*, which includes only Directors from outside GE, held five meetings. This committee reviewed the activities and independence of GE's public accountants and the activities of the Company's internal audit staff. Its reviews included the Company's financial reporting process, internal financial controls and compliance with key GE policies, including those related to the defense procurement process. It also reviewed the investment portfolio of GE Financial Services.

The *Finance Committee* met four times. It examined GE's financial position, pension funding and trust operations, foreign investments, financing commitments with the airline industry and other matters involving large-scale utilization of Company funds.

The *Management Development and Compensation Committee,* which includes only Directors from outside GE, held 11 meetings. In addition to approving changes in GE's management, it reviewed the Company's exempt salary structure and executive compensation programs.

The *Nominating Committee*, which held three meetings, reviewed candidates for the Board and recommended the committee structure and membership for the ensuing year.

The *Operations Committee* met five times, including joint sessions with the Audit, Finance, and Technology and Science Committees. It reviewed the Company's operating results and plans as well as the activities of GE Medical Systems and Corporate Research and Development.

The *Public Responsibilities Committee*, at its two meetings, reviewed the activities of the General Electric Foundations and evaluated environmental issues that could affect GE.

The *Technology and Science Committee* held two meetings, both joint sessions with the Operations Committee. Its activities included reviews of GE Lighting and NBC.

Committees of the Board

Audit Committee
Richard T. Baker, Chairman
Lawrence E. Fouraker
Gertrude G. Michelson
Barbara Scott Preiskel
Lewis T. Preston
Frank H.T. Rhodes

Finance Committee
Robert E. Mercer, Chairman
John F. Welch, Jr., Vice Chairman
Richard T. Baker
Charles D. Dickey, Jr.
Henry H. Henley, Jr.
David C. Jones
Frank H.T. Rhodes
Walter B. Wriston

Management Development and Compensation Committee
Walter B. Wriston, Chairman
Henry H. Henley, Jr.
Henry L. Hillman
David C. Jones
Gertrude G. Michelson

Nominating Committee
Charles D. Dickey, Jr., Chairman
Henry H. Henley, Jr.
Gertrude G. Michelson
Lewis T. Preston
Andrew C. Sigler

Operations Committee
Henry L. Hillman, Chairman
Lawrence A. Bossidy, Vice Chairman
H. Brewster Atwater, Jr.
Robert E. Mercer
Barbara Scott Preiskel
Lewis T. Preston
Andrew C. Sigler
William French Smith

Public Responsibilities Committee
Henry H. Henley, Jr., Chairman
John F. Welch, Jr., Vice Chairman
H. Brewster Atwater, Jr.
Richard T. Baker
Lawrence E. Fouraker
Henry L. Hillman
Gertrude G. Michelson
Barbara Scott Preiskel
Andrew C. Sigler
William French Smith

Technology and Science Committee
Frank H.T. Rhodes, Chairman
Edward E. Hood, Jr., Vice Chairman
Charles D. Dickey, Jr.
Lawrence E. Fouraker
Henry L. Hillman
David C. Jones
Robert E. Mercer

Management (As of February 10, 1989)

Corporate Executive Officers

John F. Welch, Jr.
Chairman of the Board and Chief Executive Officer

Lawrence A. Bossidy
Vice Chairman of the Board and Executive Officer

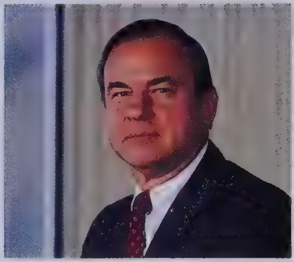
Edward E. Hood, Jr.
Vice Chairman of the Board and Executive Officer

James R. Bunt
Vice President

Paul W. Van Orden
Executive Vice President

Senior Corporate Officers

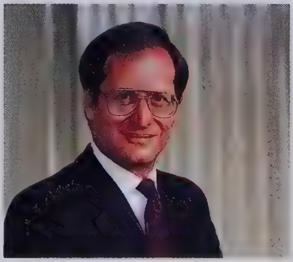
Dennis D. Dammerman
Senior Vice President, Finance



Jack O. Peiffer
Senior Vice President, Executive Management

Frank P. Doyle
Senior Vice President, Relations

Walter L. Robb
Senior Vice President, Research and Development



Benjamin W. Heineman, Jr.
Senior Vice President, General Counsel and Secretary

Corporate Staff Officers

Nigel D.T. Andrews
Vice President, Business Development and Planning

James J. Costello
Vice President and Comptroller

Dale F. Frey
Vice President and Treasurer; Chairman and President, General Electric Investment Corporation

Joseph Handros
Vice President and Deputy General Counsel

Joyce Hergenhan
Vice President, Public Relations

Philip A. Lacovara
Vice President and Senior Counsel, Litigation and Legal Policy

Teresa M. LeGrand
Vice President, Audit Staff

Phillips S. Peter
Vice President, Government Relations

Arthur V. Puccini
Vice President, Employee Relations

John M. Samuels
Vice President and Senior Counsel, Tax Policy and Planning

Edward J. Skiko
Vice President, Information Technology

Operating Management (As of February 10, 1989)

Financial Services

Gary C. Wendt
President and Chief Operating Officer, General Electric Financial Services, Inc.; President and Chief Executive Officer, General Electric Capital Corporation (GECC)

Leo A. Halloran
Senior Vice President, Finance

Burton J. Kloster, Jr.
Senior Vice President, General Counsel and Secretary

Michael A. Carpenter
Executive Vice President, GECC; President and Chief Executive Officer, Kidder, Peabody Group Inc.

Dennis J. Carey
Senior Vice President, GECC Corporate Finance

Charles V. Sheehan
Senior Vice President, Kidder, Peabody Finance and Administration

James H. Ozanne
Executive Vice President, GECC

Silas S. Cathcart
Chairman, Kidder, Peabody Group Inc.

Michael G. Fitt
Chairman, President and Chief Executive Officer, Employers Reinsurance Corporation

Plastics

Glen H. Hiner
Senior Vice President, GE Plastics

Robert H. Brust
Vice President, Finance

Paul L. Dawson
Vice President, GE Plastics – Americas

Edward R. Koscher
Vice President, Sales

William H. Westendorf
Vice President, Manufacturing

Joseph G. Wirth
Vice President, Technology

Philip M. Gross
Vice President, GE Silicones

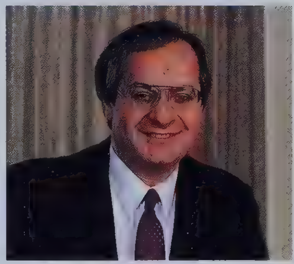
Herbert G. Rammrath
President, GE Plastics – Pacific Ltd.

Joseph M. Sakach, Jr.
Chairman and Chief Executive Officer, General Electric Plastics B.V.

L. Donald Simpson
Vice President, Manufacturing

Uwe S. Wascher
Vice President, Product Management and Marketing

Medical Systems



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Senior Vice President, GE Medical Systems

James G. Del Mauro
Vice President, Service

Thomas E. Dunham
Vice President, Manufacturing

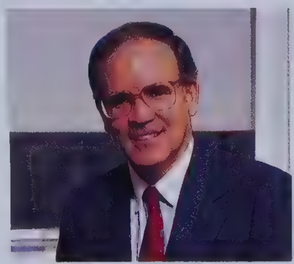
Vincenzo Morelli
President and Chief Executive Officer, General Electric – CGR S.A.

Charles P. Pieper
President and Chief Executive Officer, GE Medical Systems – Asia Ltd.

Steven C. Riedel
Vice President, Marketing

Robert L. Stocking
Vice President, Sales

NBC



Robert C. Wright
President and Chief Executive Officer, National Broadcasting Company, Inc.

Albert F. Barber
Executive Vice President

Michael G. Gartner
President, NBC News

Albert D. Jerome
President, NBC Television Stations

Edward L. Scanlon
Executive Vice President

Brandon R. Tartikoff
President, NBC Entertainment and NBC Productions

Raymond J. Timothy
Group Executive Vice President

Aircraft Engines

Brian H. Rowe
Senior Vice President, GE Aircraft Engines

Brian Brimelow
Vice President, Government Products

Sam Dolfi
Vice President, Human Resources

Lee Kapor
Vice President, Commercial Engine Operations

Edward C. Bavaria
Vice President, Airline Marketing

W. George Krall
Vice President, Production

James A. Parke
Vice President, Finance and Business Development

Frank E. Pickering
Vice President, Engineering

Robert C. Turnbull
Vice President, Military Engine Operations

Lighting

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Vice President, Marketing and Sales

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GE Industrial and Power Systems

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Vice President, GE Power Generation

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Eugene J. Kovarik
Vice President, GE Power Delivery and Control

Joel Tenzer
Vice President, GE Drive Systems

Delbert L. Williamson
Vice President, GE Industry and Utility Sales

Bertram Wolfe
Vice President, GE Nuclear Energy

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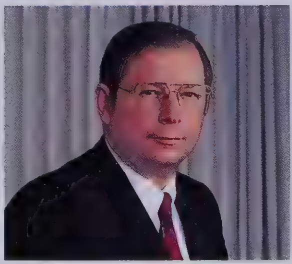
Senior Vice President,
GE Appliances

Richard L. Burke
Vice President, Technology, Product Design and Manufacturing

Gerald R. Cote
Vice President, GE Consumer Service

Bruce A. Enders
Vice President, Marketing

Aerospace



John D. Rittenhouse
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GE Aerospace

James B. Feller
Vice President, Aerospace Technology

Jack A. Frohbieter
Vice President, Government Electronic Systems

Arthur L. Glenn
Vice President, Defense Systems

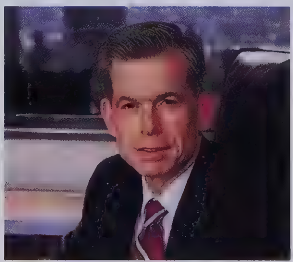
Raymond P. Kurlak
Vice President, Communications and Strategic Systems

Charles A. Schmidt
Vice President, Astro-Space

Robert G. Stiber
Vice President, Aircraft Electronics

Robert W. Tieken
Vice President, Finance and Information Technology

Communications and Services



Eugene F. Murphy
Senior Vice President,
GE Communications and Services

W. James McNerney, Jr.
President, GE Information Services

Electrical Distribution and Control

Gary L. Rogers
Vice President, GE Electrical Distribution and Control

David M. Engelman
Vice President, Sales

Motors

Stephen J. O'Brien
Vice President, GE Motors

Roger D. Morey
Vice President, Sales

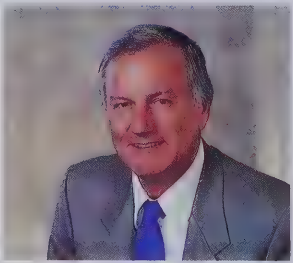
Transportation Systems

Michael D. Lockhart
Vice President,
GE Transportation Systems

Factory Automation

Robert P. Collins
President and Chief Executive Officer, GE Fanuc Automation North America, Inc.

International



Paolo Fresco
Senior Vice President,
GE International

Alberto F. Cerruti
Vice President, Finance and Business Support

Alistair C. Stewart
Vice President, Middle East, Africa and South Asia

Thomas W. Tucker
Vice President, Asia-Pacific

Canada/Latin America

William R.C. Blundell
Chairman and Chief Executive Officer, GE Canada

Robert T.E. Gillespie
Executive Vice President

GE Supply

J. Richard Stonesifer
Vice President, GE Supply

Ladd Petroleum

Ronald G. Spence
President and Chief Executive Officer, Ladd Petroleum Corporation

Aerospace Technology

Thomas E. Cooper
Vice President, Aerospace Technology

Environmental Programs

W. Roger Strelow
Vice President, Environmental Programs

Licensing/Trading

Stuart A. Fisher
President and Chief Executive Officer, GE and RCA Licensing Management Operation, Inc., and GE Trading Company

Marketing and Sales

Clyde D. Keaton
Vice President, Marketing and Sales

Albert J. Febbo
Vice President, Automotive Industry Marketing and Sales

Henry J. Singer
Vice President, Area Management and Sales

Contents

This Financial Section is much longer than in the past because of a new Financial Accounting Standards Board rule that requires GE to consolidate fully General Electric Financial Services, Inc. (GEFS). Previously, GEFS' financial data were presented separately because the nature of its business is so different from other GE businesses that management believed consolidation would tend to obscure and confuse rather than enlighten. Although GE is, of course, complying with the new rule, we have designed the financial section to preserve — as much as is possible — the identities of "GE except GEFS" and "GEFS." Our objective is to assist share owners and other users of these data to continue to analyze and evaluate them using techniques appropriate to such distinctly different businesses. The new consolidation does not change the Company's net earnings or share owners' equity nor does it change the way in which the Company's businesses are managed.

Statement of Earnings

For the years ended December 31 (In millions)	General Electric Company and consolidated affiliates 1988	1987	1986
Revenues			
Sales of goods	**$28,953**	$29,937	$28,139
Sales of services	**9,840**	9,370	7,067
Other income (note 4)	**675**	655	1,016
Earnings of GEFS	**—**	—	—
GEFS earned income from operations (note 5)	**10,621**	8,196	5,963
Effect of change in tax-rate assumptions for leveraged leases (note 5)	**—**	—	(172)
Total revenues	**50,089**	48,158	42,013
Costs and expenses (note 6)			
Cost of goods sold	**21,155**	22,359	20,707
Cost of services sold	**7,676**	7,290	5,425
Interest and other financial charges (note 8)	**4,817**	3,912	2,679
Insurance policy holder losses and benefits	**1,501**	1,560	1,439
Provision for losses on financing receivables (note 9)	**434**	290	558
Other costs and expenses	**9,724**	8,406	7,760
Unusual expenses, including provisions for business restructurings (note 10)	**—**	1,118	311
Minority interest in net earnings (loss) of consolidated affiliates	**61**	(4)	7
Total costs and expenses	**45,368**	44,931	38,886
Earnings (loss) before income taxes, extraordinary item and cumulative effect of accounting changes	**4,721**	3,227	3,127
(Provision) credit for income taxes (note 11)	**(1,335)**	(1,108)	(1,027)
Effect of change in tax-rate assumptions for leveraged leases (note 5)	**—**	—	392
Earnings before extraordinary item and cumulative effect of accounting changes	**3,386**	2,119	2,492
Extraordinary item (note 26)	**—**	(62)	—
Cumulative effect to January 1, 1987 of accounting changes			
Initial application of Statement of Financial Accounting Standards No. 96 — "Accounting for Income Taxes" (note 1)	**—**	577	—
Change in overhead recorded in inventory (note 1)	**—**	281	—
Net earnings	**$ 3,386**	$ 2,915	$ 2,492
Net earnings per share (in dollars)			
Before extraordinary item and cumulative effect of accounting changes	**$ 3.75**	$ 2.33	$ 2.73
Extraordinary item (note 26)	**—**	(.07)	—
Cumulative effect to January 1, 1987 of accounting changes			
Initial application of Statement of Financial Accounting Standards No. 96 — "Accounting for Income Taxes" (note 1)	**—**	.63	—
Change in overhead recorded in inventory (note 1)	**—**	.31	—
Net earnings per share	**$ 3.75**	$ 3.20	$ 2.73
Dividends declared per share (in dollars)	**$ 1.46**	$ 1.32½	$ 1.18½

The notes to consolidated financial statements on pages 44-70 are an integral part of this statement.

GE			GEFS		
1988	1987	1986	**1988**	1987	1986
$28,958	$29,937	$28,139	**$ —**	$ —	$ —
9,866	9,378	7,072	**—**	—	—
680	649	1,010	**—**	—	—
788	552	504	**—**	—	—
—	—	—	**10,655**	8,225	5,986
—	—	—	**—**	—	(172)
40,292	40,516	36,725	**10,655**	8,225	5,814
21,160	22,359	20,707	**—**	—	—
7,702	7,298	5,430	**—**	—	—
669	645	625	**4,177**	3,277	2,063
—	—	—	**1,501**	1,560	1,439
—	—	—	**434**	290	558
6,250	5,979	5,963	**3,484**	2,440	1,805
—	1,027	311	**—**	91	—
29	1	(3)	**32**	(5)	10
35,810	37,309	33,033	**9,628**	7,653	5,875
4,482	3,207	3,692	**1,027**	572	(61)
(1,096)	(1,088)	(1,200)	**(239)**	(20)	173
—	—	—	**—**	—	392
3,386	2,119	2,492	**788**	552	504
—	(62)	—	**—**	(62)	—
—	577	—	**—**	518	—
—	281	—	**—**	—	—
$ 3,386	$ 2,915	$ 2,492	**$ 788**	$ 1,008	$ 504

In the supplemental consolidating data on this page, "GE" means the former basis of consolidation as described in note 1 to the consolidated financial statements; "GEFS" means General Electric Financial Services, Inc. and all of its affiliates and associated companies. Transactions between GE and GEFS have been eliminated from the "General Electric Company and consolidated affiliates" columns on the preceding page. Eliminations are shown on page 45.

Statement of Financial Position

At December 31 (In millions)	General Electric Company and consolidated affiliates 1988	1987
Assets		
Cash (note 12)	**$ 2,187**	$ 2,543
Marketable securities carried at cost (note 13)	**5,779**	5,353
Marketable securities carried at market (note 14)	**5,089**	4,000
Securities purchased under agreements to resell	**13,811**	12,889
Current receivables (note 15)	**6,780**	6,745
Inventories (note 16)	**6,486**	6,265
GEFS financing receivables (investment in time sales, loans and financing leases) — net (note 17)	**35,832**	27,839
Other GEFS receivables (note 18)	**4,699**	4,458
Property, plant and equipment (including equipment leased to others) — net (note 19)	**13,611**	12,973
Investment in GEFS	**—**	—
Intangible assets (note 20)	**8,552**	5,748
All other assets (note 21)	**8,039**	6,601
Total assets	**$110,865**	$ 95,414
Liabilities and equity		
Short-term borrowings (note 22)	**$ 30,422**	$ 23,873
Accounts payable (note 23)	**6,004**	5,728
Securities sold under agreements to repurchase	**13,864**	13,187
Securities sold but not yet purchased, at market (note 24)	**2,088**	1,407
Progress collections and price adjustments accrued	**3,504**	3,760
Dividends payable	**369**	319
All other GE current costs and expenses accrued (note 25)	**5,549**	4,867
Long-term borrowings (note 26)	**15,082**	12,517
Reserves of insurance affiliates	**4,177**	3,549
All other liabilities (note 27)	**6,986**	6,325
Deferred income taxes	**3,373**	3,100
Total liabilities	**91,418**	78,632
Minority interest in equity of consolidated affiliates (note 28)	**981**	302
Common stock (926,564,000 shares issued)	**584**	584
Other capital	**823**	878
Retained earnings	**17,950**	15,878
Less common stock held in treasury	**(891)**	(860)
Total share owners' equity (notes 29 and 30)	**18,466**	16,480
Total liabilities and equity	**$110,865**	$ 95,414
Commitments and contingent liabilities (note 31)		

The notes to consolidated financial statements on pages 44-70 are an integral part of this statement.

GE		GEFS	
1988	1987	1988	1987
$ 1,554	$ 1,834	$ 633	$ 709
349	858	5,430	4,495
—	—	5,089	4,000
—	—	13,811	12,889
7,110	6,782	—	—
6,486	6,265	—	—
—	—	35,939	27,931
—	—	4,806	4,641
9,360	9,255	4,251	3,718
4,819	3,980	—	—
6,984	4,430	1,568	1,318
4,621	4,896	3,418	1,705
$ 41,283	$ 38,300	$ 74,945	$ 61,406
$ 1,861	$ 1,110	$ 28,731	$ 22,848
2,136	2,615	4,132	3,329
—	—	13,864	13,187
—	—	2,088	1,407
3,504	3,760	—	—
369	319	—	—
5,549	4,867	—	—
4,330	4,491	10,862	8,037
—	—	4,177	3,549
5,481	5,088	1,505	1,237
(641)	(620)	4,014	3,720
22,589	21,630	69,373	57,314
228	190	753	112
584	584	1	1
823	878	1,379	1,328
17,950	15,878	3,439	2,651
(891)	(860)	—	—
18,466	16,480	4,819	3,980
$ 41,283	$ 38,300	$ 74,945	$ 61,406

In the supplemental consolidating data on this page, "GE" means the former basis of consolidation as described in note 1 to the consolidated financial statements; "GEFS" means General Electric Financial Services, Inc. and all of its affiliates and associated companies. Transactions between GE and GEFS have been eliminated from the "General Electric Company and consolidated affiliates" columns on the preceding page. Eliminations are shown on page 45.

Statement of Cash Flows

For the years ended December 31 (In millions)	General Electric Company and consolidated affiliates 1988	1987	1986
Cash flows from operating activities			
Net earnings	**$ 3,386**	$ 2,915	$ 2,492
Adjustments to reconcile net earnings to cash provided from operating activities			
Extraordinary item and cumulative effect of changes in accounting principles	—	(796)	—
Depreciation, depletion and amortization	**2,266**	1,913	1,825
Earnings retained by GEFS	—	—	—
Deferred income taxes	**124**	37	103
Decrease (increase) in GE current receivables	**123**	138	624
Decrease (increase) in GE inventories	**(209)**	375	(317)
Increase in insurance reserves	**315**	669	852
Provision for losses on financing receivables	**434**	290	558
Net change in certain broker-dealer accounts	**(573)**	(103)	(1,298)
All other operating activities	**1,236**	401	1,124
Cash provided from operating activities	**7,102**	5,839	5,963
Cash flows from investing activities			
Property, plant and equipment including equipment leased to others			
– additions	**(3,681)**	(2,277)	(2,806)
– dispositions	**470**	890	694
Net increase in GEFS financing receivables	**(6,057)**	(4,575)	(4,203)
Payments for principal businesses purchased, net of cash acquired	**(3,504)**	(555)	(6,730)
Proceeds from principal business dispositions	**880**	646	1,386
All other investing activities	**(1,772)**	(1,084)	(1,821)
Cash used for investing activities	**(13,664)**	(6,955)	(13,480)
Cash flows from financing activities			
Net change in borrowings (less than 90-day maturities)	**3,868**	2,519	4,536
Debt having maturities more than 90 days			
– newly issued	**11,324**	8,219	9,576
– repayments and other reductions	**(8,801)**	(6,883)	(6,214)
Sale of preferred stock by GECC	**600**	—	—
Disposition of GE shares from treasury	**356**	361	283
Purchase of GE shares for treasury	**(387)**	(846)	(348)
Dividends paid to GE share owners	**(1,263)**	(1,177)	(1,058)
Cash provided from (used for) financing activities	**5,697**	2,193	6,775
Total cash flows — increase (decrease) in cash and equivalents	**$ (865)**	$ 1,077	$ (742)

The notes to consolidated financial statements on pages 44-70 are an integral part of this statement.

GE			GEFS		
1988	1987	1986	1988	1987	1986
$ 3,386	$ 2,915	$ 2,492	**$ 788**	$ 1,008	$ 504
—	(796)	—	**—**	(456)	—
1,522	1,544	1,460	**744**	369	365
(788)	(552)	(504)	**—**	—	—
(215)	(158)	(158)	**339**	195	250
(170)	111	629	**—**	—	—
(209)	375	(317)	**—**	—	—
—	—	—	**315**	669	852
—	—	—	**434**	290	558
—	—	—	**(573)**	(103)	(1,298)
98	434	226	**1,444**	207	421
3,624	3,873	3,828	**3,491**	2,179	1,652
(1,884)	(1,698)	(2,042)	**(1,797)**	(579)	(764)
118	410	275	**352**	480	419
—	—	—	**(5,943)**	(4,627)	(3,779)
(2,963)	—	(6,110)	**(541)**	(555)	(620)
880	646	1,367	**—**	—	19
292	7	(120)	**(2,007)**	(1,282)	(1,617)
(3,557)	(635)	(6,630)	**(9,936)**	(6,563)	(6,342)
(466)	(961)	466	**4,249**	3,515	4,039
934	396	3,387	**10,291**	7,818	6,195
(30)	(238)	(566)	**(8,771)**	(6,645)	(5,648)
—	—	—	**600**	—	—
356	361	283	**—**	—	—
(387)	(846)	(348)	**—**	—	—
(1,263)	(1,177)	(1,058)	**—**	—	—
(856)	(2,465)	2,164	**6,369**	4,688	4,586
$ (789)	$ 773	$ (638)	**$ (76)**	$ 304	$ (104)

In the supplemental consolidating data on this page, "GE" means the former basis of consolidation as described in note 1 to the consolidated financial statements; "GEFS" means General Electric Financial Services, Inc. and all of its affiliates and associated companies. Transactions between GE and GEFS have been eliminated from the "General Electric Company and consolidated affiliates" columns on the preceding page. Eliminations are shown on page 45.

Management's Discussion of Earnings

Overview

For the first time, General Electric Company's consolidated financial statements include the detailed effects of adding to the Company's manufacturing and industrial services businesses the accounts of General Electric Financial Services, Inc. (GEFS). The reason for the required change is discussed in note 1 to the consolidated financial statements. Among other things, that note also explains how the terms "GE" or "GE except GEFS" and "GEFS" are used in this report to help readers understand the various data. These terms are used frequently in this Management Discussion for clarification or emphasis.

Consolidated net earnings for 1988 were \$3.386 billion, or 16% more than for 1987. Net earnings were not affected by the change in method of consolidation. This was the Company's second consecutive year of strong double-digit earnings growth. Most businesses contributed to the better earnings. Productivity gains in GE operations were pervasive, and GE Plastics and GE Medical Systems had excellent increases in revenues and operating profit. GEFS had much higher earnings. Consolidated operating profit and earnings improved despite a sharp reduction in GE Appliances' profitability because of significantly higher warranty expense for certain refrigerator compressors. See "industry segments" beginning on page 32 for additional detail about performance by various businesses of the Company.

Net earnings for 1988 did not include any provisions for business restructuring expenses, nor did they include any impact from accounting changes. Net earnings in 1987 were 17% above 1986, also as a result of solid operating performance. However, analysis of 1987 results was complicated by two types of transactions that essentially equaled each other in net earnings. These were a reduction in pre-tax and after-tax earnings caused by unusual and extraordinary expenses (\$747 million after taxes), mainly for business restructurings to improve future profitability; and an increase in after-tax earnings (\$720 million) from two accounting changes, one involving income taxes and the other involving overhead recorded in inventories, as explained in note 1.

Return on average share owners' equity of 19.4% in 1988 improved almost one full point from 1987's 18.5%, which also was much better than that for 1986 — 17.3%. Share owners' equity is not affected by the new consolidation method.

The consolidated Statement of Earnings (page 24) shows that revenues were \$50.1 billion in 1988 compared with \$48.2 billion in 1987 and \$42.0 billion in 1986. These amounts are restated because of the change in consolidation method. The principal components of consolidated revenues are "sales of goods and services" by GE and "earned income" of GEFS.

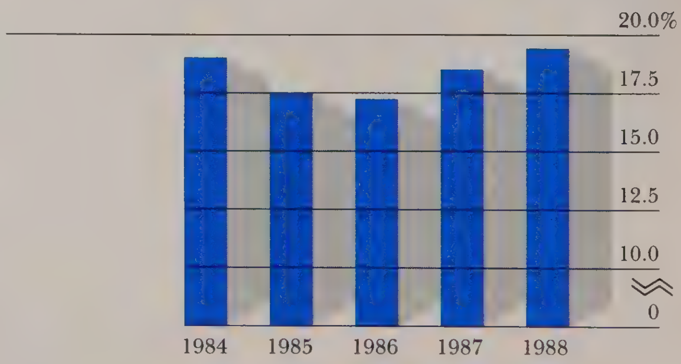
- GE sales for 1988 were \$38.8 billion, 1% less than the year before. Total volume of shipments in 1988 was down about 2%, but the effect was partly offset by higher prices in some markets. If sales for the two periods were adjusted for business dispositions (which were only partly offset by sales added by acquisitions), GE's sales for 1988 would have been up 4% year-to-year. Sales in 1987 were 12% more than in 1986, mainly because of inclusion in 1987 of a full year of operations for businesses acquired from RCA, whereas 1986 sales had included RCA operations only for seven months.

- GE's other income for 1988 was slightly above 1987 following a sharp decrease from 1986. Principal reasons for the 1987 decrease were lower income from short-term investments, which had built up in 1986 preparatory to the acquisition of RCA, and lower gains from sales of Toshiba Corporation stock. Details of GE's other income are in note 4.

- GEFS' earned income from operations for 1988 was \$10.7 billion, up 30% from 1987's \$8.2 billion, which was 37% more than the \$6.0 billion for 1986. The principal reason for these increases has been higher levels of earning assets in financing businesses plus increases in premium and investment income of insurance affiliates. Yields (i.e., prices or interest rates paid to GEFS by its customers for its financing of their needs) were up in 1988 following declines in 1987 and 1986. Note 5 presents details.

- GE's cost of goods and services sold and its selling, general and administrative expenses totaled \$35.1 billion

Return on share owners' equity

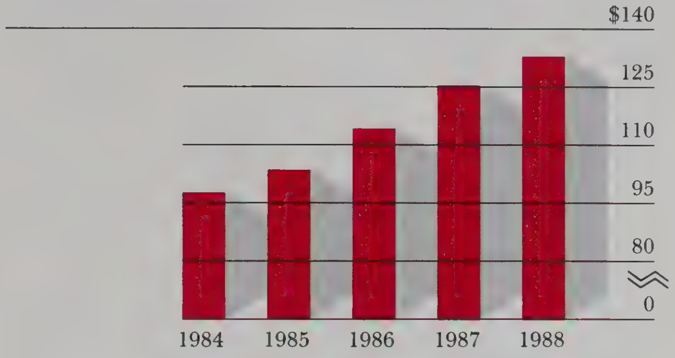


in 1988, equal to 90.4% of sales. Excluding the abnormally high refrigerator compressor warranty expense provisions in 1988, the ratio of costs to sales would have been 89.3%. Comparable cost and expense ratios to sales for 1987 and 1986 were 90.6% and 91.2%, respectively. An important factor in these improved cost/sales relationships has been steadily improving productivity for the last five years as depicted in the chart on this page. There were no corporate-level business restructuring expense provisions in 1988 to compare with the $1.0 billion provided in 1987 and the $311 million in 1986. Over the five years ended in 1987, GE's unusual business restructuring expenses, the major objective of which has been to improve cost structures, aggregated about $2.6 billion. The impact on any one year's net earnings from business restructuring provisions was essentially equaled by gains from sales of businesses that do not fit the Company's long-term growth strategy and also, in 1987, by the effect of the income tax and inventory accounting changes.

- GEFS' principal cost is interest expense, which totaled $4.2 billion in 1988, a 27% increase from 1987, which was up 59% from 1986. The increased interest expense reflects the higher level of borrowings that have been used to invest in earning assets involved in a wide variety of financings made available to third parties. The composite interest rate incurred for GEFS' finance activities was 8.39% in 1988 compared with 8.11% in 1987 and 8.49% in 1986. The "spread," or difference between interest rates GEFS pays to its lenders and rates it charges to its customers, increased somewhat in 1988 after narrowing in the two previous years. Among GEFS' other costs, the provision for losses on financing receivables of $434 million was up $144 million in 1988. At year-end 1988, GEFS' reserve coverage was equal to 2.63% of financing receivables, up from 2.59% at year-ends 1987 and 1986. The receivable loss provision of $558 million in 1986 was higher than normal because of energy-related write-offs.

- Although relatively small, the interest of minority owners in the equity of consolidated affiliates was much higher for both GE and GEFS in 1988 than in previous years. For GE, the increase was due mainly to the impact of the Company's recent aggressive formation of joint ventures and alliances aimed at increasing global competitiveness. For GEFS, the increase was principally the result of GECC's selling variable rate preferred stock to third parties to augment the equity base.

GE employee productivity
(Constant dollar sales per GE employee; in thousands)



- The consolidated effective income tax rate was 28.3% in 1988 compared with 34.3% in 1987 and 20.3% in 1986. (The U.S. federal statutory rate was 34% for 1988, 40% for 1987 and 46% for 1986.) Although the decrease in the U.S. federal statutory rate was the main reason for the lower effective consolidated rate in 1988, there are numerous reasons for differences between the statutory and effective rate. Together with other information about income tax provisions, an analysis of the differences between the U.S. federal statutory rate and the consolidated rate can be found in note 11.

- Dividends declared totaled $1.314 billion in 1988, or $1.46 per share. At the same time, the Company retained sufficient earnings to support enhanced productive capability and to provide adequate financial resources for internal and external growth opportunities. The fourth-quarter increase of 17% in dividends declared marked the 13th consecutive year of dividend growth.

Industry segments

Industry segment revenues and operating profit for the last five years appear on the opposite page. The presentation of consolidated industry segments is in two parts, one for GE except GEFS and one for GEFS. Consistent with prior years, GE revenues and operating profit continue to include earnings of GEFS. Revenues and operating profit for GEFS by the industry segments in which it conducts business are presented separately with appropriate elimination of GEFS' earnings as well as the minor effect of transactions between GE and GEFS segments.

Consumer Products is no longer shown as a separate GE industry segment inasmuch as the largest contributor to revenues in that segment (the consumer electronics business) was sold at the end of 1987. Consumer electronics results for prior years are now included in All Other, and the GE Lighting business is now included in the Industrial segment. Additional financial data as well as a detailed description of each segment can be found in note 33.

Consolidated operating profit is the principal source of GE's net earnings, and the relationship between the two for the last five years is depicted in the chart on this page. Consolidated operating profit was $5.9 billion in 1988, up from $4.5 billion in 1987 and $3.7 billion in 1986. Operating profit in 1987 was after absorbing $1.069 billion of unusual expenses ($285 million in 1986), mainly for business restructuring to improve long-range competitiveness. There were no similar unusual expenses in 1988. Comments on each segment follow.

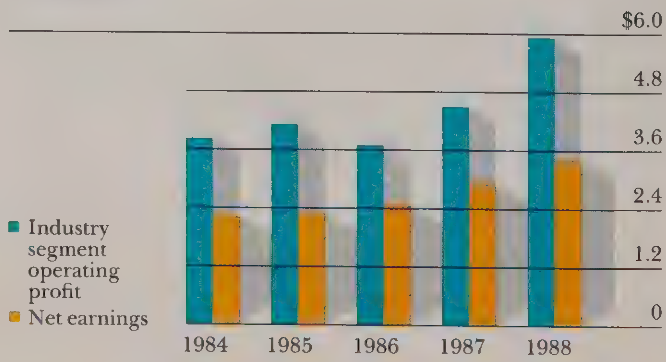
- **Aerospace** revenues in 1988 were essentially unchanged from 1987. Higher revenues in 1987 compared with 1986 resulted from including RCA for a full year in 1987 plus other volume increases. Operating profit in 1988 also was essentially unchanged after adjusting for 1987's restructuring expense ($31 million). That restructuring expense more than accounted for 1987's slight decrease from 1986. New orders of $5.6 billion received during 1988 were up 13%, and the backlog of unfilled orders at December 31, 1988 was $7.1 billion, of which approximately 50% is scheduled for completion in 1989.

- **Aircraft Engines** revenues were 4% lower in 1988 after a number of years of strong increases. The 1988 decline came from the effect of lower shipment schedules for military engines that was only partially offset by increased deliveries to commercial customers. The strong volume growth in years before 1988 resulted in higher operating profits. The operating profit of $1.0 billion in 1988 was about 1% below the 1987 level when $72 million of business restructuring expense is excluded from that year. This relatively good (considering the revenues decline) operating profit performance was the result of productivity improvements. New orders of $9.7 billion received during 1988 were up 18%, and the backlog of unfilled orders at December 31, 1988 was $12.4 billion, of which about 40% is scheduled for completion in 1989.

- **Broadcasting** revenues increased 12% in 1988, mainly because of NBC's coverage of the Summer Olympic Games. Operating profits were up 8% from 1987. The smaller relative increase in operating profit reflected the cost impact and lost advertising volume from coverage of the two major political conventions. Profitability in 1988 from network operations was flat, but TV station profitability improved. The comparison of 1987 and 1986 revenues and operating profit (both of which increased substantially in 1987) reflected inclusion of a full year of NBC in GE results in 1987 versus only seven months in 1986.

- **Industrial** revenues were 6% more in 1988 than in 1987, which was 2% below 1986. When reviewing trends in operating profit, it should be recalled that 1987 and 1986 results were depressed by business restructuring expense provisions ($326 million in 1987 and $95 million in 1986). Adjusting for the 1987 restructuring expenses, operating profit in 1988 was up 27%. (Adjusting 1987 and 1986 for business restructuring expense provisions, segment operating profit in 1987 was 6% less than in 1986.) The 1988 operating profit increase was led by GE Lighting, which had much-improved margins on modestly higher revenues. GE Transportation Systems had a good increase in operating profit and revenues, and GE Motors and GE Electrical Distribution and Control had better margins on modest revenues increases.

Consolidated operating profit and net earnings (In billions)



Summary of Industry Segments

For the years ended December 31 (In millions)	1988	1987	1986	1985	1984
	General Electric Company and consolidated affiliates				
Revenues					
GE					
Aerospace	$ 5,343	$ 5,262	$ 4,318	$ 3,085	$ 2,622
Aircraft Engines	6,481	6,773	5,977	4,712	3,835
Broadcasting	3,638	3,241	1,888	51	104
Industrial	7,061	6,662	6,770	6,946	6,648
Major Appliances	5,289	4,721	4,352	3,617	3,650
Materials	3,539	2,751	2,331	2,119	2,280
Power Systems	4,805	4,995	5,262	5,824	6,289
Technical Products and Services	4,431	3,670	3,021	2,317	2,402
Earnings of GEFS	788	552	504	413	329
All Other	394	3,176	3,379	1,071	1,762
Corporate Items and Eliminations	(1,477)	(1,287)	(1,077)	(903)	(990)
Total GE	40,292	40,516	36,725	29,252	28,931
GEFS					
Financing	5,827	3,507	2,594	2,469	2,093
Insurance	2,469	2,206	2,017	1,329	831
Securities Broker-Dealer	2,316	2,491	1,176	—	—
All Other	43	21	27	7	9
Total GEFS	10,655	8,225	5,814	3,805	2,933
Eliminations	(858)	(583)	(526)	(433)	(422)
Consolidated revenues	$50,089	$48,158	$42,013	$32,624	$31,442
Operating profit					
GE					
Aerospace	$ 640	$ 603	$ 608	$ 437	$ 332
Aircraft Engines	1,000	940	869	673	460
Broadcasting	540	500	240	20	15
Industrial	798	302	575	658	478
Major Appliances	61	490	462	399	381
Materials	733	507	424	330	446
Power Systems	503	199	354	740	549
Technical Products and Services	484	275	112	22	(8)
Earnings of GEFS	788	552	504	413	329
All Other	168	72	162	376	797
Total GE	5,715	4,440	4,310	4,068	3,779
GEFS					
Financing	899	636	(99)	501	444
Insurance	325	172	123	45	3
Securities Broker-Dealer	64	(23)	83	—	—
All Other	(261)	(213)	(168)	(122)	(93)
Total GEFS	1,027	572	(61)	424	354
Eliminations	(802)	(562)	(513)	(420)	(339)
Consolidated operating profit	5,940	4,450	3,736	4,072	3,794
GE interest and financial charges (net of eliminations)	(655)	(635)	(616)	(354)	(325)
GE items not traceable to segments	(564)	(588)	7	(287)	(175)
Earnings before income taxes, extraordinary item and cumulative effect of changes in accounting principles	$ 4,721	$ 3,227	$ 3,127	$ 3,431	$ 3,294

The notes to consolidated financial statements on pages 44-70 are an integral part of this statement. "GE" means the former basis of consolidation as described in note 1 to the consolidated financial statements; "GEFS" means General Electric Financial Services, Inc. and all of its affiliates and associated companies. Operating profit of GE segments excludes interest and other financial charges; operating profit of GEFS includes the effect of interest and discount, which is the largest element of GEFS' operating costs.

• **Major Appliances** revenues increased 12% from 1987 following an 8% increase from 1986. The 1988 increase came from higher volume (partly offset by lower prices) in core appliance lines and from the addition of Roper Corporation beginning in 1988's second quarter. The sharp drop in operating profit in 1988 following several years of good increases was more than accounted for by abnormally high warranty expense provisions for certain refrigerator compressors. The problem has been corrected in currently manufactured products.

• **Materials** revenues were up 29% in 1988 compared with 1987, which was 18% more than 1986. Operating profit for 1988 increased 45% from the previous year following a 20% gain from 1986. These continuing excellent performances have been led by strong volume growth in all plastics product lines. This growth also has been accompanied by better margins. Acquisition of Borg-Warner's chemicals businesses at the end of the third quarter of 1988 not only increased volume but added to operating profit and net earnings after all acquisition costs.

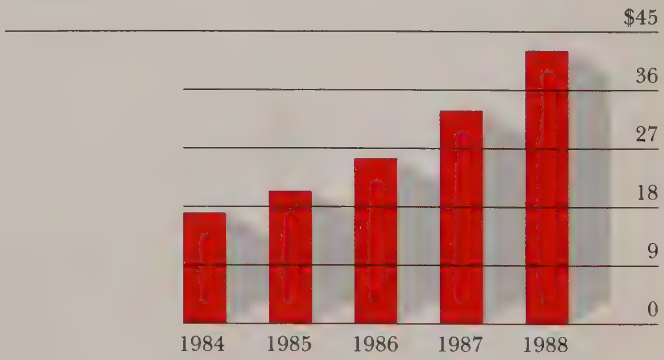
• **Power Systems** revenues were down 4% in 1988 — the fourth consecutive year of lower revenues. New order rates and backlogs continue to be low by long-term historical standards although there were signs of some potential upturn in 1988, particularly in gas turbine markets. When comparing trends in operating profits, it should be recalled that 1987 and 1986 results were depressed by business restructuring expense provisions ($264 million in 1987 and $173 million in 1986). Adjusting for the 1987 restructuring expenses, operating profit in 1988 was up 9%. Adjusting 1987 and 1986 for business restructuring expense provisions, segment operating profit in 1987 was 12% less than in 1986.

• **Technical Products and Services** revenues increased 21% in both 1988 and 1987. Operating profit increased sharply in both years, even taking into account the $95 million of business restructuring expense in 1987. GE Medical Systems had substantial gains in 1988 revenues because of the acquisition of European operations (CGR) at the beginning of the year. Operating profit also increased substantially on higher volume in core lines, particularly magnetic resonance and service, as well as at CGR. GE Communications and Services had good margin improvements although revenues were down somewhat because of the sale of Globcom early in 1988.

• **Earnings of GEFS** continued to increase in 1988. Comments on GEFS industry segments appear below. Of GEFS' 1988 net earnings, GE Capital's contribution was $600 million, 28% more than 1987's $470 million, which was 24% above 1986. (The 1987 amount excludes the cumulative effect of the income tax accounting change and extraordinary loss discussed in note 1.)

• **Financing** operating profits have increased very substantially since 1986. The level of earning assets and the impact of changes in interest rates on borrowing costs and financing yields are important factors in Financing operating profits. Earning assets increased by 30% in 1988 from 1987, which was 29% more than 1986. Financing yields increased in 1988 after declining during 1987. GE Capital's composite annual interest rate increased 43 basis points in 1988. In 1987, the composite annual interest rate

Earning assets of financing businesses (In billions)



decreased 30 basis points. The operating loss in 1986 was the result of that year's dramatic decline in oil prices, which resulted in a substantial charge to reflect impairment of values of certain energy-related investments.

- **Insurance** operating profit increased sharply in 1988. The principal element of the insurance segment is Employers Reinsurance Corporation, which has increased business volume and investment income each year since 1986. Other insurance operations (which are part of GE Capital Corporation) also had improved results in 1988 following two years of charges reflecting adverse loss experience.

- **Securities Broker-Dealer** (Kidder, Peabody) had an operating profit in 1988 following a loss in 1987. The improvement in 1988 reflected higher investment banking revenues, lower operating and administrative expenses, and the absence of unusual expense provisions in 1987 for business restructurings and settlement of insider trading charges.

- **All Other GEFS** consists principally of acquisition-related interest expense not allocated to the segments.

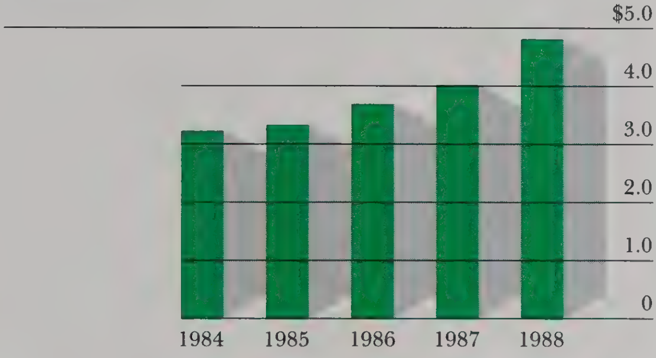
- **GE items not traceable to segments** aggregated a loss of $564 million in 1988 and $588 million in 1987. There was a small gain in 1986. This caption includes expenses such as the Corporate R&D Center and corporate staffs and income from corporate treasury activities. In 1987 and 1988, there was much lower income from corporate-level investments and nothing comparable to large gains from sale of Toshiba stock in 1986.

International operations

- **Total international operations** (consisting of all exports from the United States plus the results of offshore affiliates) had revenues of $10.8 billion and operating profit of $2.1 billion in 1988. Revenues were $9.2 billion and $8.3 billion in 1987 and 1986, respectively; and operating profit was $1.7 billion in 1987 and $1.3 billion in 1986.

- **GE's exports to external customers** totaled $4.9 billion in 1988, up from 1987's $4.0 billion. The chart on this page shows the substantial growth in GE's exports for the

U.S. exports to external customers
(In billions)



past five years. Export sales by major world areas for the past three years are shown below.

U.S. exports to external customers (In millions)	1988	1987	1986
Europe	$1,805	$1,253	$1,634
Pacific Basin	1,357	1,146	985
Middle East and Africa	937	762	490
Americas	531	625	476
Other areas	240	238	124
Total	$4,870	$4,024	$3,709

In addition, exports from GE operations in the United States to GE affiliates offshore were $874 million in 1988, $801 million in 1987 and $639 million in 1986.

- **GE made a positive contribution of about $3.1 billion** to the U.S. balance of trade in 1988. Total exports in 1988 were $5.7 billion, including both exports from the United States to external customers and to GE affiliates. Imports from GE affiliates were $1.0 billion, and direct imports from external suppliers were $1.6 billion.

Management's Discussion of Financial Resources and Liquidity

Overview

This discussion of financial resources and liquidity focuses on the Statement of Financial Position (page 26) and the Statement of Cash Flows (page 28). As with the Statement of Earnings, the content of these two statements for GE and GEFS is so different that most of the asset, liability and cash flow categories do not lend themselves to simple combination. This, of course, reflects the differences in the nature of the businesses.

Although GE's manufacturing and nonfinancial services activities involve a variety of different businesses, their underlying characteristics are developing, preparing for market and selling tangible products and services. Risk and reward are directly related to the ability to manage those activities. Financial leverage comes from realizing an adequate return on share owners' equity with judicious use of borrowed funds.

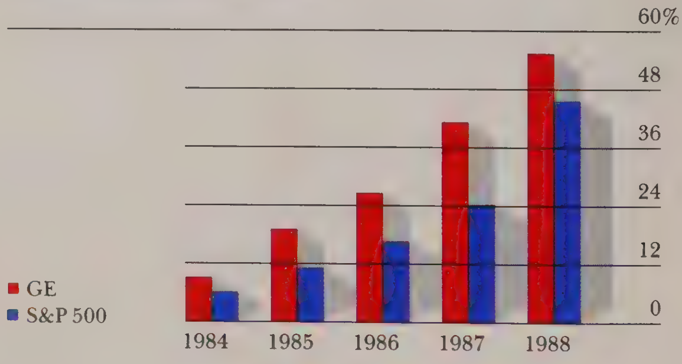
GEFS is not a "captive finance company" or a vehicle for "off-balance-sheet financing" for GE. In fact, very little of its business is directly related to other GE operations. Its principal businesses provide financing, reinsurance and broker-dealer services to third parties. The underlying characteristics of these businesses involve the management of financial risk. They do not develop, manufacture and sell products and services where risk and reward hinge on customer satisfaction as with, for example, an aircraft engine or the delivering of a message over a TV network. Their risk and reward are related to the ability to provide funds at competitive rates coupled with creative value-added services.

These fundamental differences are reflected in the measurements commonly used by investors, rating agencies and financial analysts. These differences will become clearer in the discussion that follows with respect to the more significant items in the two financial statements.

Statement of Financial Position

- **Marketable securities carried at cost** for GE are cash equivalents and are part of GE's near-term cash management process to be discussed in connection with cash flows. GEFS' balance consists primarily of debt securities held by its insurance affiliates in support of their obligation to policy holders.
- **Marketable securities carried at market** represent primarily the investing and trading portfolio of Kidder, Peabody and, to a lesser degree, similar insurance affiliate activities.
- **Securities purchased under agreements to resell** ("reverse repurchase agreements") are related to the liability account: Securities sold under agreements to repurchase ("repurchase agreements"). These typically represent highly liquid, short-term investments of excess funds or borrowing of such funds from others. At year-ends 1988 and 1987, the balances (both assets and liabilities) were solely those of Kidder, Peabody in connection with its broker-dealer activities.
- **GE's current receivables** are mainly amounts due from customers ($5.3 billion at December 31, 1988 and $5.5 billion at December 31, 1987). Receivables "turned over" 7.01 times in 1988 compared with 6.81 times in 1987. ("Turnover" relates receivables to sales and is a measurement of collection efficiency. Higher turnover indicates faster collections.) GE's trend in this area has been improving since 1985 as the result of vigorous management attention to credit and collections. Other receivables measurements, such as delinquency ratios and amounts past due, also have been improving, and the overall condition of customer receivables remained excellent at the end of 1988. Current receivables other than amounts owed by customers are amounts that did not originate from sales of GE products or services, such as advances to suppliers in connection with large contracts.

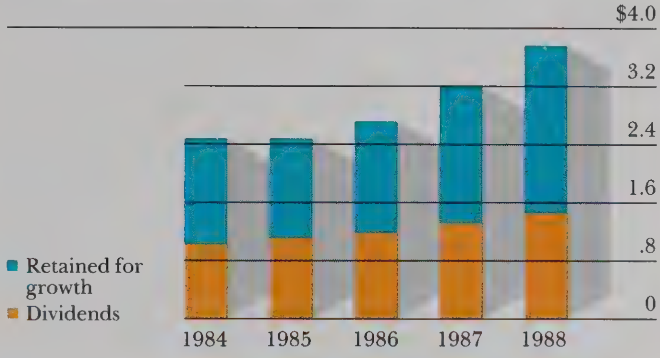
GE/S&P 500 annual dividends per share increase compared with 1983



• **Inventories** of $6.5 billion at the end of 1988 were slightly higher than the $6.3 billion at the end of 1987. Inventories turned over 4.38 times in 1988 compared with 4.25 times in 1987. As with receivables, this is a measurement of efficient use of resources and has been showing steady improvement in recent years. Principal inventory increases were in GE Aircraft Engines and GE Plastics in anticipation of higher sales. Some of the larger reductions occurred in GE Aerospace and from the sale of the semiconductor business. In 1988, cost of sales was charged for last-in first-out (LIFO) revaluation of $150 million because of higher prices. The $324 million increase in the LIFO revaluation in 1987 was mostly related to the inventory accounting change discussed in note 1. In 1986, there was a net favorable LIFO adjustment to cost of sales, including a $51 million reduction in LIFO reserves because of reduced inventory levels mainly in power systems businesses.

• **GEFS' financing receivables** grew to $35.9 billion in 1988, an $8.0 billion (29%) increase. Note 17 includes extensive information and details about these receivables. Time sales and loans grew $7.2 billion with all principal categories of loans up except "home and recreation financing." The largest increase ($4.1 billion) was in "retailer financing," mainly due to the acquisition of Montgomery Ward's credit operations during the year. Investment in "direct financing leases" increased $1.0 billion to $8.4 billion from year-end 1987, and leveraged leases of $2.7 billion were about the same as at the end of the prior year. Nonearning and reduced-earning financing receivables were less than 1% of earning assets at the end of each of the last two years. The allowance for losses that is deducted in arriving at the $35.9 billion balance increased from $743 million at the end of 1987 to $972 million at year-end 1988. Details of changes in the reserve balance can be found in note 9. These included additions by charging operations ($434 million in 1988, $290 million in 1987 and $558 million in 1986) and write-offs of $294 million in 1988, $171 million in 1987 and $461 million in 1986. Overall net loss experience as a percent of average financing receivables was 0.81% in 1988, 0.62% in 1987 and 2.02% in 1986, a year when large energy-related write-offs were made. At the end of 1988, the reserve coverage on financing receivables was equal to 2.63% of the receivables balance outstanding, up from 2.59% at the end of the previous two years. In summary, GEFS' financing receivables are in good condition and reserve protection is strong.

Net earnings retained for growth and used for dividends (In dollars per share)



• **Property, plant and equipment** (including equipment leased to others) aggregated $13.6 billion at December 31, 1988 and $13.0 billion a year earlier. GE's property, plant and equipment consists of investments for its own productive use, whereas the largest element of GEFS' investment is in equipment that is provided to third parties on operating leases. Details by categories of investment can be found in note 19.

GE's total expenditures for new plant and equipment during 1988 were $2.3 billion, bringing the total for the last five years (excluding the unusually large addition by acquisition of RCA in 1986) to $10.5 billion. Of that five-year total, 33% was to increase capacity; 25% was to increase productivity; 13% was to support new business start-ups; 13% was to replace and renew older equipment; and 16% was for such other purposes as improving R&D facilities and safety and environmental protection. Of GE's $2.3 billion current-year expenditures, about $400 million was attributable to acquisitions of businesses. Current-year depreciation and dispositions of plant and equipment virtually offset current-year additions.

GEFS added $1.5 billion to its equipment leased to others. Current-year amortization was $665 million.

• **Intangible assets** aggregated $8.6 billion at the end of 1988. The majority of this consolidated total is GE's intangibles, which were $7.0 billion at that date or $2.6 billion more than a year earlier. The largest portion of GE's balance (in both goodwill and other intangibles) arose from

the acquisition of RCA Corporation in 1986. Increases during 1988 mainly reflected goodwill from the acquisitions of Borg-Warner's chemicals businesses, Roper Corporation, a TV station in Miami, Fla., and final valuation of CGR medical business assets.

- **All other assets** totaled \$8.0 billion at December 31, 1988 compared with \$6.6 billion a year earlier. These are a wide variety of items as detailed in note 21. In prior years, GE's deferred tax asset was included in this category. However, as a result of the new consolidation, this asset is now shown as a "negative liability" under "deferred income taxes" in the Statement of Financial Position to provide proper consolidation with GEFS' deferred income tax credit.

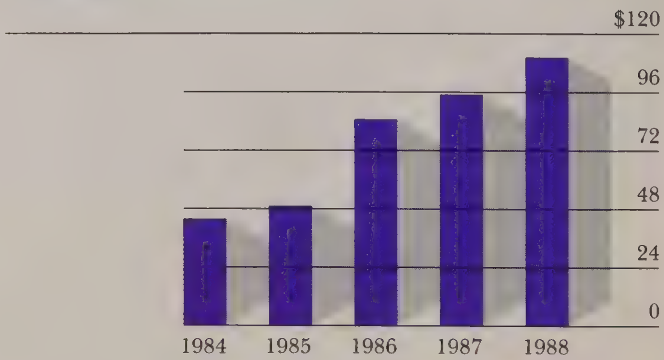
- **Total borrowings** on a consolidated basis aggregated \$45.5 billion at December 31, 1988. However, borrowings must be looked at separately for GE and GEFS. The major debt-rating agencies evaluate the financial condition of the entities separately because of their distinctly different business characteristics. Using criteria appropriate to each, those major rating agencies continue to give top ratings to debt of both GE and GEFS.

GE's total borrowings were \$6.2 billion at the end of 1988. Long-term borrowings were \$4.3 billion compared with \$4.5 billion a year ago, and short-term borrowings were \$1.9 billion compared with \$1.1 billion at the end of 1987. Short-term borrowings include \$1.2 billion of long-term debt that is due to be paid in 1989, most of it related to the RCA acquisition in 1986. GE's total debt at the end of 1988 equaled 24.9% of its total capital compared with 25.1% at the end of 1987. This relationship of debt and equity capital is sound and is within the range of what would be expected of a strong industrially oriented firm.

GEFS' total borrowings were \$39.6 billion at December 31, 1988, of which \$28.7 billion is due in 1989 and \$10.9 billion is due in subsequent years. Comparable amounts at the end of 1987 were: \$30.9 billion total; \$22.8 billion due within one year; and \$8.0 billion due beyond that. The increases were to support the growth in GEFS' earning assets. As noted earlier in this discussion, GEFS' primary business is management of financial risk involving borrowing money at favorable rates and providing funds to others at higher rates along with creative value-added services. GEFS' composite interest rates were discussed in connection with the Statement of Earnings. A large portion of GEFS' borrowings is in the form of commercial paper (\$24.6 billion and \$18.8 billion at the end of 1988 and 1987, respectively). Most of this commercial paper is issued by GE Capital. Its commercial paper has maturities of up to nine months. The average remaining terms of GECC's commercial paper were 23 days and 36 days at the end of 1988 and 1987, respectively. Average interest rates on GECC's commercial paper were 9.32% and 7.73% at the end of those respective years. Higher 1988 rates reflected general financial market conditions. "Leverage," the relationship of debt to equity capital, is expected by investors to be much higher in a financial enterprise than in an industrial enterprise. GECC's ratio of debt to equity was 7.67 to 1.00 at the end of 1988 compared with 7.98 to 1.00 at the end of 1987. This relationship of debt to equity capital is believed to be sound and is appropriate for a highly rated financial services enterprise.

Notes 22 and 26 provide details of short-term and long-term borrowings.

Consolidated total assets
(In billions)



Statement of Cash Flows

This statement replaces the former Statement of Changes in Financial Position to comply with a new Financial Accounting Standards Board requirement. The focus is on cash, whereas GE's former statement had a somewhat different orientation on "funds." The new statement emphasizes cash flows from three broad categories — operating activities, investing activities and financing activities. Inasmuch as the cash management activities of GE and GEFS are separate and distinct, it is more useful to review the separate cash flow statements than the consolidated statement.

GE

GE's cash and equivalents (cash and marketable securities) aggregated $1.9 billion at the end of 1988, a decrease of $789 million during 1988. Net cash of $773 million was generated in 1987, while there was a net cash usage of $638 million in 1986.

GE's largest source of cash is its own operations. These have provided an aggregate of more than $11 billion of cash over the last three years. The largest ongoing uses of cash by GE are usually expenditures for new plant and equipment, which aggregated $5.6 billion over the past three years (included in investing activities) and dividends to share owners, which aggregated $3.5 billion during the last three years (included in financing activities). Thus, GE's operating activities have provided more than enough cash to cover these basic corporate activities and to generate cash for other endeavors.

In 1986, GE paid $6.4 billion for RCA ($6.1 billion excluding RCA's cash on hand at the time). This required borrowing $3.4 billion of long-term debt. Some short-term debt also was issued at the time, but it was promptly repaid by a combination of dispositions of certain RCA businesses and cash provided from operations. In 1988, GE made several acquisitions, the principal ones of which required cash outflow of $3 billion. These acquisitions were paid for partly from cash on hand and partly from new borrowings. These acquisitions more than accounted for the $789 million reduction in cash-equivalent balances noted above.

Based on past performance and current expectations, in combination with the financial flexibility that comes with the highest credit ratings, GE is well positioned to continue making long-term investments for future growth, including selective acquisitions and investments in joint ventures, to enhance share owner investment.

GEFS

GEFS' principal source of cash is financing activities that involve continuing rollover of short-term borrowings and appropriate addition of long-term borrowings, with a reasonable balance of maturities. Over the past three years, GEFS' borrowings with 90-day or less maturities have increased a total of $11.8 billion. New borrowings of $24.3 billion having maturities longer than 90 days were added during those years while $21.1 billion of such longer-term borrowings were paid off.

GEFS' principal application of cash has been in investing activities to grow the business. Of the $22.8 billion of net investments by GEFS over the past three years, $14.3 billion was devoted to additional financing receivables. Other principal investments during these years were $1.7 billion to acquire new businesses as GEFS expands its activities and $3.1 billion for new equipment, which is mainly for lease to others.

The difference between cash used for new investments and cash provided from additional borrowings has been met mainly by generation of $7.3 billion of cash from operating activities for the years 1986-1988 and from issuance of $0.6 billion cumulative variable preferred stock by GE Capital in 1988. GEFS' cash and equivalents balance has remained relatively stable throughout the period — again in keeping with its business mission.

In summary, based on past performance and current expectations, in combination with the financial flexibility that comes with excellent credit ratings, GEFS is well positioned to continue growing its earning assets and to produce a good rate of return on GE share owners' investment in GEFS.

Selected financial data summarizes on one page some data frequently requested about General Electric Company and provides a record that may be useful in reviewing trends. The data on the opposite page are presented in a different format than in previous years. The upper portion presents information on the basis of the new consolidation. Following that are certain data that reflect GE operations with various traditional measurements appropriate to the industrial businesses. Finally, there is a section providing key information and ratios pertinent to GEFS. Certain additional comments and information follow.

GE's total research and development expenditures were \$3.6 billion in 1988. Of this, \$1.2 billion was from GE's own funds and \$2.4 billion was from funds provided by customers, mainly the U.S. government. Comparable amounts for 1987 were: total expenditures — \$3.0 billion; Company-funded — \$1.2 billion; and customer-funded — \$1.8 billion. The increase in customer funds in 1988 was mainly for GE Aerospace projects. During the years 1984-1988, GE's total R&D expenditures from all sources of funds aggregated almost \$15 billion.

Consolidated worldwide employment at the end of each of the last five years, segregated between GE and GEFS, is depicted in the chart below. The table on the opposite page presents the same data with respect to employees located in the United States and in other countries. The increase in employees in 1986 was because of the RCA acquisition. Current total employment levels are now slightly below where they were at the end of 1985, although revenues have increased 54% since that year.

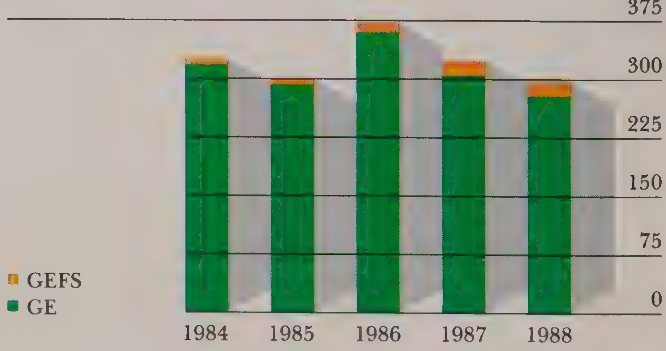
GE's total backlog of unfilled orders at the end of 1988 was \$27.3 billion. Orders constituting this backlog may be canceled or deferred by customers (subject in certain cases to cancellation penalties). Comments on unfilled orders for GE Aircraft Engines and GE Aerospace (which together make up over 70% of the year-end 1988 backlog) can be found in the discussion of Industry Segments, which begins on page 32. About 49% of the 1988 total unfilled orders is scheduled to be shipped in 1989 with most of the remainder to be shipped in the two years after that. For comparison, about 57% of the 1987 backlog was expected to be shipped in 1988.

Unfilled orders for export of all types of products and services from the United States were \$8.2 billion at December 31, 1988, up from \$6.0 billion the year before. The backlog of aircraft engine orders increased by almost 60% and made up a large majority of the 1988 unfilled export orders backlog.

Inflation has not been a significant factor in consolidated net earnings growth in recent years because of the relatively modest rate of price increases in the economies of the United States and of the principal foreign countries where the Company has operations.

Regarding environmental matters, the operations of the Company, like those of other companies engaged in similar businesses, involve the use, disposal and cleanup of substances regulated under environmental protection laws. While it is extremely difficult to quantify the potential impact of actions regarding environmental matters, particularly remediation efforts that the Company may undertake in the future, in the opinion of management compliance with the present laws governing environmental protection will not have a material effect on the Company's expenditures, earnings or competitive position.

Consolidated employment at year end
(In thousands)



Selected Financial Data

(Dollar amounts in millions; per-share amounts in dollars)	1988	1987	1986	1985	1984
General Electric Company and consolidated affiliates					
Revenues	$ 50,089	$ 48,158	$ 42,013	$ 32,624	$ 31,442
Earnings before extraordinary loss and cumulative effect of accounting changes	3,386	2,119	2,492	2,277	2,239
Net earnings	3,386	2,915	2,492	2,277	2,239
Dividends declared	1,314	1,209	1,081	1,020	930
Earned on average share owners' equity	19.4%	18.5%	17.3%	17.5%	19.0%
Per share					
Net earnings	$ 3.75	$ 3.20	$ 2.73	$ 2.50	$ 2.47
Dividends declared	1.46	1.32½	1.18½	1.11½	1.02½
Stock price range	47⅞-38⅜	66⅜-38¾	44⅜-33¼	36⅞-27¾	29⅝-24⅛
Total assets	110,865	95,414	84,818	49,123	43,860
Long-term borrowings	15,082	12,517	10,001	5,577	4,818
Shares outstanding — average (in thousands)	901,780	911,639	912,594	910,762	907,360
Share owner accounts — average	529,000	491,000	492,000	506,000	520,000
Employees at year end					
Domestic	255,000	277,000	302,000	243,000	255,000
Foreign	43,000	45,000	71,000	56,000	68,000
Total employees	298,000	322,000	373,000	299,000	323,000
GE data					
Short-term borrowings	$ 1,861	$ 1,110	$ 1,813	$ 1,297	$ 1,047
Long-term borrowings	4,330	4,491	4,351	753	753
Minority interest	228	190	189	126	128
Share owners' equity	18,466	16,480	15,109	13,671	12,398
Total capital invested	$ 24,885	$ 22,271	$ 21,462	$ 15,847	$ 14,326
Return on average total capital invested	16.4%	14.7%	13.9%	16.2%	17.6%
Borrowings as a percentage of total capital invested	24.9%	25.1%	28.7%	12.9%	12.6%
Current assets	$ 15,499	$ 15,739	$ 14,288	$ 12,546	$ 11,552
Current liabilities	13,419	12,671	11,461	8,919	8,607
Working capital	$ 2,080	$ 3,068	$ 2,827	$ 3,627	$ 2,945
Property, plant and equipment additions (other than by acquisition of RCA)	$ 2,288	$ 1,778	$ 2,042	$ 1,953	$ 2,419
Year-end orders backlog	27,265	22,737	23,943	23,117	22,577
GEFS data					
Earnings before extraordinary loss and cumulative effect of accounting change	$ 788	$ 552	$ 504	$ 413	$ 329
Net earnings	788	1,008	504	413	329
Share owner's equity	4,819	3,980	2,994	2,302	1,874
Earned on average share owner's equity	18.0%	18.0%	19.7%	19.9%	19.1%
Borrowings from others	$ 39,593	$ 30,885	$ 23,397	$ 16,393	$ 13,402
Ratio of debt to equity (GE Capital)	7.67:1	7.98:1	7.83:1	7.89:1	7.97:1
Earning assets of financing businesses	$ 42,173	$ 32,423	$ 25,169	$ 20,169	$ 17,054
Reserve coverage on financing receivables	2.63%	2.59%	2.59%	2.57%	2.54%
Insurance premiums written	$ 1,809	$ 1,729	$ 1,704	$ 1,092	$ 637
Securities broker-dealer earned income	2,316	2,491	1,176	—	—

See notes 1 and 26 to the consolidated financial statements for information about 1987 accounting changes and extraordinary loss, and notes 2 and 3 for information about acquisitions and related matters. "GE" means the former basis of consolidation as described in note 1 to the consolidated financial statements; "GEFS" means General Electric Financial Services, Inc. and all of its affiliates and associated companies. Transactions between GE and GEFS have been eliminated from the "consolidated data." Share data reflect the 2-for-1 stock split in April 1987.

Management's Discussion of Financial Responsibility

The financial information in this report, including the audited financial statements, has been prepared by management. Preparation of financial statements and related data involves estimates and the use of judgment. Accounting principles used in preparing the financial statements are those which are generally accepted in the United States. These principles are consistent in most important respects with standards issued by the International Accounting Standards Committee. Where there is no single specified accounting principle or standard, management makes a choice from reasonable, accepted alternatives, using methods which it believes are prudent for General Electric Company and its consolidated affiliates.

To safeguard Company assets, it is important to have a sound but dynamic system of internal financial controls and procedures that balances benefits and costs. One of the key elements of internal financial controls has been the Company's success in recruiting, selecting, training and developing professional financial managers. Their responsibilities include implementing and overseeing the financial control system, reporting on management's stewardship of the assets entrusted to it by share owners, and performing accurate and proper maintenance of the accounts.

Management has long recognized its responsibility for conducting the affairs of the Company and its affiliates in an ethical and socially responsible manner. General Electric Company is dedicated to the highest standards of integrity. Integrity is not an occasional requirement but a continuing commitment which is reflected in key written policy statements. These cover, among other subjects, potentially conflicting outside business interests of employees, compliance with antitrust laws, and proper domestic and international business practices. Management insists on maintaining the highest standards of conduct and practices with respect to transactions with the United States government. There is continuing emphasis to all employees that even the appearance of impropriety can erode public confidence in the Company and in the government procurement process. Ongoing education, communication and review programs are designed to create a strong compliance environment and to make it clearly understood that deviation from Company policies will not be tolerated.

Peat Marwick Main & Co. provide an objective, independent review of management's discharge of its obligations relating to the fairness of reported operating results and financial condition. Their report for 1988 appears on the opposite page.

The Audit Committee of the Board (consisting solely of Directors from outside GE) maintains an ongoing appraisal — on behalf of share owners — of the effectiveness of the independent public accountants, the Company's staff of corporate auditors and management, with respect to the financial reporting process, and of the adequacy of internal financial controls. The committee also reviews the Company's accounting policies, internal accounting controls, and the Annual Report and proxy material.

John F. Welch, Jr.
Chairman of the Board and
Chief Executive Officer

Dennis D. Dammerman
Senior Vice President
Finance

February 10, 1989

Independent Auditors' Report

To Share Owners and Board of Directors of General Electric Company

We have audited the accompanying statement of financial position of General Electric Company and consolidated affiliates as of December 31, 1988 and 1987 and the related statements of earnings and cash flows for each of the years in the three-year period ended December 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements appearing on pages 24-29 and 44-70 present fairly, in all material respects, the financial position of General Electric Company and consolidated affiliates at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, in 1988 the Company changed its method of inclusion of previously unconsolidated affiliates; and in 1987 the Company changed its methods of accounting for income taxes and overhead recorded in inventory. We concur with these accounting changes.

Peat Marwick Main & Co.

Peat Marwick Main & Co.
Stamford, Connecticut
February 10, 1989

Note 1 Summary of Significant Accounting Policies

Consolidation and financial statement presentation

In 1988, GE was required to adopt two new Statements of Financial Accounting Standards (SFAS): SFAS No. 94 — "Consolidation of All Majority-Owned Subsidiaries"; and SFAS No. 95 — "Statement of Cash Flows." These changes are in addition to changes made in 1987 to implement SFAS No. 96 — "Accounting for Income Taxes" and to modify GE's accounting procedures to include in inventory certain manufacturing overhead costs previously charged directly to expense.

Consolidation. The consolidated financial statements now represent the adding together of all companies in which General Electric Company directly or indirectly has a majority ownership or otherwise controls ("affiliated companies"). In the past, results of financial services affiliates — the principal one being General Electric Financial Services, Inc. (GEFS or GE Financial Services) and its affiliated companies — were included on the equity basis as one line in total earnings and net assets. This was permissible under prior rules and, because financial services operations are so different in nature from and essentially unrelated to operations of other GE businesses, management believed that financial statements were more understandable if GEFS' statements were shown separately. It should be emphasized that, using the new consolidation procedure, consolidated net earnings and share owners' equity are unchanged for all periods presented. However, substantially more detail is required under the new standard than under rules previously in effect. Also as a result of this change, the Company adopted an unclassified consolidated statement of financial position.

Management believes it is important to preserve as much as possible the identity of the principal financial data and related measurements to which share owners and others have become accustomed over the years. Accordingly, consolidated financial statements and notes now are generally presented in a format that includes data grouped basically as follows.

- **GE** — this is essentially the former basis of consolidation except that it includes some very small financial services affiliates previously not consolidated. The effect of transactions among companies within this group has been eliminated. Where appropriate for clarification or emphasis, particularly in the notes, this group of entities also is referred to as "GE except GEFS."
- **GEFS** — this affiliate owns all of the common stock of General Electric Capital Corporation (GECC or GE Capital) and of Employers Reinsurance Corporation (ERC)

and 80% of the stock of Kidder, Peabody Group Inc. (Kidder, Peabody). These affiliates and their respective affiliates are consolidated in the GEFS columns with the effect of transactions among them eliminated before the consolidated presentation.

- **Consolidated** — these columns represent the adding together of GE and GEFS. However, it is necessary to remove the effect of transactions between GE except GEFS and GEFS to arrive at a consolidated total. The "eliminations" used to arrive at these consolidated totals are summarized below.

Eliminations (In millions)	1988	1987	1986
Statement of Earnings			
Sales of goods	$ (5)	$ —	$ —
Sales of services	(26)	(8)	(5)
Other income	(5)	6	6
Earnings of GEFS	(788)	(552)	(504)
Earned income	(34)	(29)	(23)
Total revenues	(858)	(583)	(526)
Cost of goods sold	(5)	—	—
Cost of services sold	(26)	(8)	(5)
Interest and other financial charges	(29)	(10)	(9)
Other costs and expenses	(10)	(13)	(8)
Total costs and expenses	(70)	(31)	(22)
Earnings before income taxes, extraordinary item and cumulative effect of accounting changes	(788)	(552)	(504)
Extraordinary item	—	62	—
Income tax accounting change	—	(518)	—
Net earnings	$ (788)	$(1,008)	$ (504)
Statement of Financial Position			
GE current receivables	$ (330)	$ (37)	
GEFS financing receivables	(107)	(92)	
Other GEFS receivables	(107)	(183)	
Investment in GEFS	(4,819)	(3,980)	
Total assets	$(5,363)	$(4,292)	
Short-term borrowings	$ (170)	$ (85)	
Accounts payable	(264)	(216)	
Long-term borrowings	(110)	(11)	
Total liabilities	(544)	(312)	
GEFS equity	(4,819)	(3,980)	
Total liabilities and equity	$(5,363)	$(4,292)	
Statement of Cash Flows			
Net earnings (operating activities)	$ (13)	$ (213)	$ 483
Investing activities	(171)	243	(508)
Financing activities	184	(30)	25
Total	$ —	$ —	$ —

Virtually all products financed by GECC are manufactured by companies other than GE.

There is no change in method for consolidating companies in which GE or GEFS owns between 20% and 50% ("associated companies"). Results of these companies are still included on a one-line basis.

Cash flows. SFAS No. 95 now requires a Statement of Cash Flows in place of the former Statement of Changes in Financial Position. The principal result (in addition to consolidation) is to present analytical data of cash flow items rather than the former focus on changes in cash and marketable securities less short-term borrowings for GE other than GEFS. For purposes of implementing this standard, marketable securities of GE except GEFS are treated as cash equivalents. Certain of the securities so treated have maturities ranging between 90 and 365 days; but, as part of GE's cash management program, maturities are scheduled based on contemplated cash needs for the ensuing 12 months. GEFS' amounts classified as "marketable securities carried at cost" and "marketable securities carried at market" are not treated as cash equivalents in the Statement of Cash Flows.

Prior-year statements have been restated or reclassified as appropriate to conform them to the presentations required by SFAS Nos. 94 and 95.

Pensions and other retirement benefits. Accounting policies for pensions and other retirement benefits are discussed in note 7.

Income taxes. SFAS No. 96 — "Accounting for Income Taxes" was issued by the Financial Accounting Standards Board in December 1987. A requirement of SFAS No. 96 is that deferred tax liabilities or assets at the end of each period be determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Accordingly, under SFAS No. 96 rules, income tax expense provisions will increase or decrease in the same period in which a change in tax rates is enacted. Previous rules required providing deferred taxes using rates in effect when the tax asset or liability was first recorded without subsequent adjustment solely for tax-rate changes (except with respect to leveraged leases).

In conformity with SFAS No. 96 transition rules, the Company elected to adopt the new income tax accounting during 1987. The cumulative effect to January 1, 1987 ($577 million, including $518 million for GEFS) of the change is shown in the 1987 columns of the Statement of Earnings. Also, as required, quarterly earnings reported for 1987 were restated for the effect of this change on interim quarters in 1987 as if it had occurred at January 1. Restated quarterly amounts can be found in note 35.

GE accounting policies

Sales. A sale is recorded when title passes to the customer or when services are performed in accordance with contracts.

Investment tax credit (ITC). The ITC was repealed, with some transitional exceptions, effective January 1, 1986. However, for financial reporting purposes, GE has deferred recognition of the ITC each year and continues to amortize ITC as a reduction of the provision for income taxes over the lives of the facilities to which the credit applies.

Inventories. The values of most inventories are determined on a last-in first-out, or LIFO, basis and do not exceed realizable values. Effective January 1, 1987, GE changed its accounting procedures to include in inventory certain manufacturing overhead costs previously charged directly to expense. Among the more significant types of manufacturing overhead included in inventory as a result of the change are: depreciation of plant and equipment; pension and other benefits of manufacturing employees; and certain product-related engineering expenses. The Company believes this change was preferable because it provides a better matching of production costs with related revenues in reporting operating results. In accordance with generally accepted accounting principles, the cumulative effect of this change for periods prior to January 1, 1987 ($281 million after providing for taxes of $215 million) is shown separately in 1987 in the Statement of Earnings on page 24. There was virtually no effect from this change on 1987 results after recording the cumulative effect, and the pro forma effect on prior-years results was immaterial.

Depreciation, depletion and amortization. The cost of most manufacturing plant and equipment is depreciated using an accelerated method based primarily on a sum-of-the-years digits formula. If manufacturing plant and equipment is subject to abnormal economic conditions or obsolescence, additional depreciation is provided.

GEFS accounting policies

Methods of recording earned income. Income on all loans is earned on the interest method. For loan contracts on which finance charges are precomputed, finance charges are deferred at the time of contract acquisition. For loan contracts on which finance charges are not precomputed but are billed to customers, income is recorded when earned. Accrual of interest income is suspended when collection of an account becomes doubtful, generally after the account becomes 90 days delinquent.

Financing lease income that includes related investment tax credits and residual values is recorded on the interest method so as to produce a level yield on funds not yet recovered. Unguaranteed residual values included in lease income are based primarily on independent appraisals of the values of leased assets remaining at expiration of the lease terms.

Origination, commitment and other nonrefundable fees related to fundings are deferred and recorded in earned income on the interest method. Commitment fees related to loans not expected to be funded and line-of-credit fees are deferred and recorded in earned income on a straight-line basis over the period to which the fees relate. Syndication fees are recorded in earned income at the time the related services are performed unless significant contingencies exist.

In 1987, GEFS adopted Statement of Financial Accounting Standards No. 91 — "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," which modified certain accounting principles that apply to nonrefundable fees and costs associated with lending and leasing activities. GEFS' accounting practices with respect to such fees and costs already conformed substantially to the requirements of SFAS No. 91, and, accordingly, the effect of adopting the new accounting standard in 1987 was not material.

Kidder, Peabody's proprietary securities and commodities transactions are recorded on a trade-date basis. Trading and investment securities are valued at market or estimated fair value. Unrealized gains and losses on open contractual commitments, principally financial futures, when-issued securities and forward contracts on U.S. government and federal agency securities, are reflected in the Statement of Earnings on a trade-date basis. Customers' transactions and the related revenues and expenses are reflected in the financial statements on a settlement-date basis. Revenues and expenses on a trade-date basis are not materially different. Investment banking revenues from management fees, sales concessions and underwriting fees are recorded on settlement date. Advisory fee revenue is recorded when services are substantially completed and the revenue is reasonably determinable.

See "insurance affiliates" on page 47 for information with respect to earned income of these businesses.

Allowance for losses on financing receivables. GEFS maintains an allowance for losses on financing receivables at an amount which it believes is sufficient to provide adequate protection against future losses in the portfolio. For small-balance and certain large-balance receivables, the allowance for losses is determined principally on the basis of actual experience during the preceding three years. Additional allowances are also recorded to reflect management's judgment of additional loss potential. For other receivables, principally the larger loans and leases, the

allowance for losses is determined primarily on the basis of management's judgment of net loss potential, including specific allowances for known troubled accounts.

All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for losses. Small-balance accounts are progressively written down (from 10% when more than three months delinquent to 100% when more than 12 months delinquent) to record the balances at estimated realizable value. However, if at any time during that period an account is judged to be uncollectible, such as in the case of a bankruptcy, the remaining balance is written off. Larger-balance accounts are reviewed at least quarterly, and those accounts which are more than three months delinquent are written down, if necessary, to record the balances at estimated realizable value.

Marketable securities. Marketable securities of Kidder, Peabody are carried at market value with the difference between cost and market value included in operations. Marketable debt securities held by all other GEFS affiliates are carried at amortized cost. Marketable equity securities of insurance affiliates are carried at market value, and unrealized gains or losses, less applicable deferred income taxes, are recognized in equity.

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements). Repurchase and reverse repurchase agreements are treated as financing transactions and are carried at the contract amount at which the securities subsequently will be resold or reacquired. Repurchase agreements relate either to marketable securities, which are carried at market value, or to securities obtained pursuant to reverse repurchase agreements. It is GEFS' policy to take possession of securities subject to reverse repurchase agreements. GEFS monitors the market value of the underlying securities in relation to the related receivable, including accrued interest, and requests additional collateral if appropriate.

Depreciation and amortization. The cost of equipment leased to others on operating leases is amortized, principally on a straight-line basis, to estimated net salvage value over the lease term or the estimated economic life of the equipment. Depreciation of property and equipment for GEFS' own use is recorded on either a sum-of-the-years digits or a straight-line basis over the lives of the assets.

Investment tax credit (ITC). ITC associated with equipment on operating leases and buildings and equipment is deferred and amortized over the lives of the underlying assets.

Insurance affiliates. The accounts of insurance affiliates are adjusted from accounting practices prescribed by state insurance regulatory authorities to a "generally accepted accounting principles" basis. The principal adjustments reflect deferral and amortization of costs (primarily commissions) of acquiring premiums, and net the effects of certain specialty reinsurance transactions.

Premiums on short-duration insurance contracts are reported as earned income over the terms of the related reinsurance treaties or insurance policies. In general, earned premiums are calculated on a pro-rata basis or are determined based on reports received from reinsureds. Premium adjustments under retrospectively rated reinsurance contracts are recorded based on estimated losses and loss expenses, including both case and incurred-but-not-reported (IBNR) reserves. Revenues on long-duration contracts are reported as earned when due.

Deferred insurance acquisition costs are amortized as the related premiums are earned for property and casualty business or over the premium-paying periods of the contracts in proportion to anticipated premium income for life insurance business. Deferred insurance acquisition costs are reviewed for recoverability, and, for short duration contracts, anticipated investment income is considered in making recoverability evaluations.

The estimated liability for outstanding losses and loss expenses consists of case reserves based on reports and estimates of losses and an IBNR reserve based primarily on experience, except where experience is not sufficient, in which case industry averages for the particular insurance products are used. Estimated amounts of salvage and subrogation recoverable on paid and unpaid losses are deducted from outstanding losses. The liability for future policy benefits of the life insurance affiliates has been computed mainly by a net-level-premium method based on assumptions for investment yields, mortality and terminations that were appropriate at date of purchase or at the time the policies were developed, including provisions for adverse deviations.

Note 2 GE Acquisitions and Related Matters

During 1988, GE completed a number of acquisitions. The largest of these were:

- Roper Corporation, acquired in April for $507 million cash. Roper's principal businesses were the manufacture and sale of gas and electric ranges and outdoor power garden equipment. In December, GE sold Roper's garden equipment business for $295 million cash. Roper's kitchen appliance business has annual sales of about $375 million.

- Borg-Warner's chemicals businesses, acquired in September for $2.3 billion cash. These businesses (annual sales of about $1.6 billion) manufacture and sell products complementary to GE's plastics businesses.

Both of these acquisitions were accounted for as purchases with the excess of purchase price over the estimate of fair values of net assets acquired recorded as goodwill. See note 20.

Business dispositions during 1988 included most of the GE Solid State (semiconductor) business; seven of NBC's eight radio stations; RCA Global Communications, Inc. (a provider of international communications services); and Sadelmi-Cogepi, a foreign construction firm. Cash proceeds from these transactions aggregated about $700 million. Aggregate annual sales of these businesses were about $900 million.

There was no material effect on GE's business from these 1988 acquisitions and dispositions.

On December 31, 1987, GE and a French electronics company, Thomson, S.A., completed a transaction in which GE acquired Thomson's medical equipment business (CGR) and Thomson acquired most of GE's consumer electronics business. The total transaction included cash received by GE of about $560 million. CGR's 1987 sales of about $800 million came mainly from digital x-ray, mammography, computed tomography, ultrasound and related sales and service in Europe and Latin America. GE's consumer electronics business included mainly GE and RCA brand television sets, VCRs and audio products with sales of about $3 billion annually. GE will continue for some time to receive royalty income from patents related to consumer electronics products. Other related closings, principally for offshore consumer electronics operations, took place in 1988. CGR's assets and liabilities were included in GE's December 31, 1987 Statement of Financial Position based on preliminary, estimated data that were reviewed and completed during 1988. Consumer electronics' assets and liabilities were removed from GE's 1987 year-end balances. The net asset value of the offshore operations sold to Thomson in 1988 was carried in "all other assets" at 1987 year end.

Also during 1987, activities involving a "new products" division and NBC's radio networks were sold for cash aggregating about $90 million and a note for $3 million. In addition, GE donated RCA's David Sarnoff Research Center to a not-for-profit organization in 1987.

The effect of these 1987 transactions was not material.

In June 1986, GE acquired RCA Corporation and its subsidiaries in a transaction for which the total consideration to former RCA shareholders was $6.4 billion in cash. RCA businesses included the manufacture and sale of a wide range of electronic products and related research and services for consumer, commercial, military and space applications; the National Broadcasting Company's radio and television stations and network broadcasting services; and domestic and international message and data communications services.

The acquisition was accounted for as a purchase, and the operating results of RCA have been consolidated with those of GE since June 1, 1986. The purchase price was allocated to the assets and liabilities of RCA based on appraisal and evaluation studies completed during 1987 and to goodwill ($3.7 billion), which is being amortized on a straight-line basis over 40 years.

Unaudited pro forma results of operations of GE except GEFS for the year 1986, assuming RCA had been acquired at the beginning of that year, would have been sales of $38,997 million, net earnings of $2,471 million and net earnings per share of $2.71. These pro forma operating results were prepared in 1986 based on estimates and assumptions including purchase price allocation. Final purchase price allocation would not have changed the pro forma results significantly. Such pro forma results are not necessarily indicative of the consolidated results that would have been reported if the RCA acquisition had actually occurred at the beginning of 1986.

In accordance with agreements with agencies of the United States government concerning the RCA acquisition, GE was required to sell its small military vidicon business (which sale was completed in 1986).

Also sold during 1986 were activities involving audio tapes and records, carpets, an insurance subsidiary and a portfolio of securities investments. These transactions were for an aggregate cash amount of about $1.4 billion.

Subsequent event

In January 1989, GE reached agreements with General Electric Company plc. (GEC), an unrelated corporation in the United Kingdom, to combine European business interests in appliances, medical systems, electrical controls and, potentially, gas turbines. Four joint ventures are contemplated with the specific corporate organizations yet to be decided. Besides the businesses and resources to be contributed by the parties to these ventures, GE will pay to GEC a cash consideration of approximately £325 million ($580 million). Subject to requisite governmental approvals, completion of the transactions is expected in mid-1989.

Note 3 GEFS Acquisitions and Related Matters

In June 1988, as part of the management-led acquisition of Montgomery Ward & Co., Incorporated (Montgomery Ward) from Mobil Corporation, GE Capital acquired Montgomery Ward's credit operations comprising Montgomery Ward Credit Corporation (MW Credit) and certain related assets (collectively with MW Credit, MW Credit Operations) for a cash purchase price of $718 million. GE Capital and Kidder, Peabody acquired 40% and 10%, respectively, of Montgomery Ward's common stock for a cash purchase price of $4 million and $1 million, respectively. In addition, GE Capital and Kidder, Peabody paid cash of $82 million and $8 million, respectively, for preferred stock in Montgomery Ward. The management-led acquisition of Montgomery Ward was partially financed by GE Capital in the form of a $275 million subordinated loan.

The acquisition of the MW Credit Operations was accounted for as a purchase, and, accordingly, the purchase price was allocated to the assets and liabilities of MW Credit Operations based on estimates of fair value. The excess purchase price over estimated fair value of net assets acquired (goodwill) is being amortized on a straight-line basis over 20 years.

If the preceding transactions had occurred on January 1, 1988 or January 1, 1987, management estimates that GEFS results of operations for the years ended December 31, 1988 and 1987 would have been as follows.

(In millions)	1988	1987
Earned income	$10,889	$8,702
Earnings before extraordinary item and cumulative effect of change in accounting principle	784	579
Net earnings	784	1,035

The above unaudited pro forma information has been prepared based on assumptions that management deems appropriate, but the results are not necessarily indicative of those that might have occurred had the acquisitions taken place at the beginnings of the respective years. The results of MW Credit Operations have been consolidated with GEFS since the date of acquisition. There would not have been any significant pro forma effect on consolidated net earnings per share from this transaction.

In July and December 1987, GECC acquired the outstanding capital stock of D&K Financial Corporation (D&K) and Gelco Corporation (Gelco), respectively, for an aggregate purchase price of approximately $535 million. Both entities are in the business of leasing vehicle fleets and other equipment. The acquisitions were accounted for as purchases. Results of operations of the acquired corporations have been included in GE Capital since their respective dates of acquisition and are not material.

On June 11, 1986, GEFS acquired for approximately $600 million in cash and notes an 80% interest in Kidder, Peabody & Co. Incorporated (the "Kidder, Peabody acquisition"). In October 1986, Kidder, Peabody Group Inc. was organized as the holding company parent of Kidder, Peabody & Co. Incorporated.

The Kidder, Peabody acquisition was accounted for as a purchase, and, accordingly, the purchase price was allocated to the assets and liabilities of Kidder, Peabody based on estimates of fair market values. The excess purchase price over estimated fair value of net assets acquired (goodwill) is being amortized on a straight-line basis over 30 years.

If the Kidder, Peabody acquisition had occurred on January 1, 1986, management estimates that earned income and net earnings of GEFS for the year ended December 31, 1986 would have been $6,691 million and $516 million, respectively. Such results are not necessarily indicative of those that might have occurred had the acquisition taken place at the beginning of 1986. There would not have been any significant pro forma effect on consolidated net earnings per share from this transaction.

FGIC Corporation

During March 1988, GE Capital increased its investment in FGIC Corporation (FGIC) by purchasing common stock and convertible preferred stock of FGIC from certain institutional investors for $74 million in cash. After conversion of all the preferred stock into common stock in September 1988, GE Capital owned 38% of FGIC's outstanding common stock. In November and December 1988, GE Capital entered into separate agreements with four institutional investors providing for the purchase by GE Capital of an additional 44% of the outstanding FGIC common stock for $283 million in cash. Although subject to regulatory approvals, these purchases are expected to be completed during the first quarter of 1989, at which time GE Capital intends to acquire the remaining outstanding common stock of FGIC.

Note 4 GE Other Income

Other income of GE except GEFS is summarized in the table below.

(In millions)	1988	1987	1986
Royalty and technical agreements	$ 359	$ 283	$ 232
Marketable securities and bank deposits	155	133	316
Associated companies	62	61	42
Customer financing	38	52	78
Other investments			
Interest	13	15	62
Dividends	8	4	11
Other sundry items	45	101	269
	$ 680	$ 649	$1,010

Other sundry items included gains of $8 million in 1987 compared with gains of $178 million in 1986 from sales of portions of GE's long-held passive investment in equity securities of Toshiba Corporation.

Note 5 GEFS Earned Income

GEFS earned income is summarized in the table below.

(In millions)	1988	1987	1986
Time sales, loan, investment and other income	$ 5,986	$ 4,475	$ 3,008
Financing leases	870	738	701
Operating lease rentals	1,372	536	321
Premium and commission income of insurance affiliates	1,802	1,748	1,582
Commissions and fees of securities broker-dealer	625	728	364
GEFS earned income from operations	10,655	8,225	5,976
Effect on investment in leveraged leases of change in tax-rate assumptions	—	—	(172)
Sale of stock by nonconsolidated affiliate	—	—	10
	$10,655	$ 8,225	$ 5,814

The Tax Reform Act of 1986 provided for a reduction in corporate tax rates from 46% in 1986 to 40% in 1987 and 34% in 1988 and subsequent years. Under generally accepted accounting principles, the cumulative effect of a change in tax rates from the rates assumed for a leveraged lease is recognized in the first accounting period ending on or after the date on which legislation affecting the tax rate becomes law. For leveraged leases, this accounting effect was a reduction in 1986 earned income from financing leases, which was more than offset by a decrease in the 1986 provision for income taxes, as shown in the following table.

(In millions)	1986
Reduction in earned income — financing leases	
Investment tax credit	$ 97
Other	75
	172
Reduction in income tax provision	
Change in investment in leveraged leases	35
Additional effect of tax-rate change	357
	392
Increase in net earnings	$220

Details of earned income from financing leases (In millions)	Direct financing leases			Leveraged leases			Total financing leases		
	1988	1987	1986	1988	1987	1986	1988	1987	1986
Deferred income amortized									
Investment tax credit	$ 20	$ 31	$ 68	$ 3	$ 16	$ 46	$ 23	$ 47	$114
Other	676	572	463	103	71	49	779	643	512
	696	603	531	106	87	95	802	690	626
Gains on realized residual values	39	44	32	29	4	43	68	48	75
Earned income — financing leases	$735	$647	$563	$135	$ 91	$138	$870	$738	$701

Noncancelable future rentals due from customers for equipment on operating leases as of December 31, 1988 totaled $1,969 million and are due as follows: 1989 — $675 million; 1990 — $431 million; 1991 — $276 million; 1992 — $195 million; 1993 — $111 million; and $281 million thereafter.

Note 6 Supplemental Cost Details (excluding unusual expenses)

Supplemental cost details are shown in the table below.

Supplemental cost details (In millions)	1988			1987			1986		
	GE	GEFS	Total	GE	GEFS	Total	GE	GEFS	Total
Employee compensation, including Social Security taxes and other benefits	$11,690	$1,052	$12,742	$12,139	$959	$13,098	$11,775	$620	$12,395
Selling, general and administrative expense	6,244	—	6,244	5,979	—	5,979	5,963	—	5,963
Depreciation, depletion and amortization of plant and equipment including equipment leased to others	1,522	744	2,266	1,544	369	1,913	1,460	365	1,825
Company-funded research and development	1,155	—	1,155	1,194	—	1,194	1,300	—	1,300
Maintenance and repairs	839	—	839	840	—	840	803	—	803
Social Security taxes	751	68	819	727	69	796	725	43	768
Rental expense	700	160	860	657	123	780	564	68	632
Advertising	413	66	479	495	51	546	481	24	505
Taxes, except Social Security and those on income	374	77	451	289	82	371	288	28	316

Note 7 Pensions and Other Retiree Benefits

GE and its affiliates sponsor a number of pension and other retiree benefit plans. This note summarizes important financial aspects of GE's obligations for these plans. Measurements of obligations and costs are based on actuarial calculations involving various assumptions as to future events.

Principal pension plans

The principal pension plans are the GE Pension Plan (GE Plan) and the GE Supplementary Pension Plan (Supplementary Plan). The RCA Retirement Plan (RCA Plan) was merged with the GE Pension Plan at the end of 1988. Amounts and comments about the GE Plan in this note include the RCA Plan from June 1, 1986. Other pension plans are sponsored by domestic and foreign affiliates, but these are not considered to be significant individually or in the aggregate to GE's financial position.

The GE Plan covers substantially all employees in the United States, including approximately 50% of GEFS employees. Generally, benefits are based on the greater of a formula recognizing career earnings or a formula recognizing length of service and final average earnings. Benefits are funded through the GE Pension Trust. At the end of 1988, approximately 218,900 employees were covered, approximately 118,000 former employees with vested rights were entitled to future benefits and approximately 149,300 retirees or beneficiaries were receiving benefits.

The Supplementary Plan is an unfunded plan providing supplementary retirement benefits primarily to higher-level, longer-service management and professional employees in the United States. At the end of 1988, about 3,600 employees were eligible for this plan, and about 3,900 retirees or beneficiaries were receiving benefits.

GE adopted Statement of Financial Accounting Standards (SFAS) No. 87 for pension accounting effective January 1, 1986. SFAS No. 87 requires use of the projected unit credit cost method to determine the projected benefit obligation and plan cost. The projected benefit obligation is the actuarial present value of the portion of projected future benefits that is attributed to employee service to date. The benefit cost for service during the year is the portion of the projected benefit obligation that is attributed to employee service during the year. This cost method recognizes the effect of future compensation and service in projecting the future benefits, and it had been used for the GE Plan before adoption of SFAS No. 87.

In addition, SFAS No. 87 establishes a "transition gain." This is the excess at January 1, 1986 of the current fair market value of plan assets over the plan's projected benefit obligation. This transition gain is being amortized over 15 years except that such excess for the RCA Plan was recognized as an asset in accounting for the RCA acquisition.

Gains and losses that occur because actual experience differs from that assumed are amortized over the average future service period of employees. Prior-service cost for changes in pension benefits which are allocable to previous periods of service are amortized in the same manner.

Actuarial assumptions for the principal pension plans include 8.5% for both the assumed discount rate used to determine the present value of future benefits and the expected long-term rate of return on plan assets. The assumed rate of average future increases in pension benefit compensation is 6.5%.

Employer costs for the principal pension plans in 1988 recognized the impact of plan design changes in 1988 and continued favorable investment performance. Details of cost for the principal pension plans follow.

Cost for principal pension plans

(In millions)	1988	1987	1986
Benefit cost for service during the year — net of employee contributions	$ 300	$ 385	$ 349
Interest cost on projected benefit obligation	1,232	1,187	1,074
Recognized return on plan assets	(1,460)	(1,293)	(1,067)
Net amortization	(299)	(254)	(213)
Net pension cost	$ (227)	$ 25	$ 143
Details of return on plan assets			
Actual return on plan assets	$ 2,261	$ 1,237	$ 2,739
Recognized return on plan assets	(1,460)	(1,293)	(1,067)
Unrecognized return on plan assets	$ 801	$ (56)	$ 1,672

Beginning in 1989, employee contributions ($147 million for 1988) will no longer reduce benefit costs as contributions will be used to provide additional pension benefits.

Recognized return on plan assets is determined by applying the expected long-term rate of return to the market-related value of assets.

Funding policy for the GE Plan is to contribute amounts sufficient to meet minimum funding requirements set forth in U.S. employee benefit and tax laws plus such additional amounts as GE may determine to be appropriate from time to time. GE made no contribution in 1988 because the funding status of the GE Plan precluded current tax deduction and would have resulted in an excise tax.

The funding status of an ongoing plan may be measured by comparing the market-related value of assets with the projected benefit obligation. The market-related value of assets is based on amortized cost plus recognition of market appreciation and depreciation in the portfolio over five years. GE believes the market-related value of assets is a more realistic measure than current fair market value because the market-related value reduces the impact of short-term market fluctuations. The funding status for the principal pension plans follows.

Funding status for principal pension plans

December 31 (In millions)	1988	1987
Market-related value of assets	$19,308	$17,663
Projected benefit obligation	15,473	15,494

A schedule reconciling the projected benefit obligation for principal pension plans with GE's recorded pension liability is shown below.

Reconciliation of projected benefit obligation with pension liability for principal pension plans

December 31 (In millions)	1988	1987
Projected benefit obligation	$15,473	$15,494
Less current fair market value of trust assets	(21,502)	(20,088)
Unrecognized SFAS No. 87 transition gain	1,847	2,000
RCA plan valuation adjustment	—	249
Other unrecognized net experience gains	3,303	2,416
Unrecognized prior-service cost	114	(265)
Recorded prepaid pension assets	1,177	573
Recorded pension liability	$ 412	$ 379

The portion of the projected benefit obligation representing the accumulated benefit obligation amounted to $14,073 million and $13,176 million at the end of 1988 and 1987, respectively, and the vested benefit obligation was $13,895 million and $12,835 million at the end of 1988 and 1987, respectively. These amounts are based on compensation and service to date.

Trust assets consist mainly of common stock and fixed income investments. Included at year-end 1988 was GE common stock valued at $139 million held in connection with an indexed portfolio.

Other unrecognized net experience gains resulted principally from favorable investment performance.

Unrecognized prior-service cost includes the effect of January 1, 1988 benefit increases to GE pensioners and 1988 benefit changes affecting active employees.

Principal retiree health care and life insurance plans

GE and its affiliates sponsor a number of plans providing retiree health care and life insurance benefits. GE's aggregate cost for the principal plans, which cover substantially all employees in the United States, was $302 million in 1988, $278 million in 1987 and $84 million in 1986. The costs for 1988 and 1987 were significantly higher than for 1986 due to favorable nonrecurring changes in 1986 when the assumed discount rate used to determine the present value of future life and health benefits was increased.

Generally, employees who retire after qualifying for optional early retirement under the GE Plan are eligible to participate in retiree health care and life insurance plans. Health care benefits for eligible retirees under age 65 and eligible dependents are included in costs as covered expenses are actually incurred. For eligible retirees and spouses over age 65, the present value of future health care benefits is funded or accrued and is included in costs in the year the retiree becomes eligible for benefits. The present value of future life insurance benefits for eligible retirees is funded and is included in costs in the year of retirement.

Most retirees outside the United States are covered by government health care programs, and GE's cost is not significant.

Note 8 Interest and Other Financial Charges

GE. Interest capitalized, principally on major property, plant and equipment projects, was $11 million in 1988, $23 million in 1987 and $38 million in 1986.

GEFS. GEFS interest and discount expense reported in the Statement of Earnings is net of interest income on temporary investments of excess funds ($285 million, $165 million and $53 million in 1988, 1987 and 1986, respectively) and capitalized interest of $16 million, $4 million and $8 million, respectively, for 1988, 1987 and 1986.

Note 9 GEFS Allowance for Losses on Financing Receivables

GEFS allowance for losses on financing receivables represented 2.63% and 2.59% of total financing receivables at year-ends 1988 and 1987, respectively. The table below shows the activity in the allowance for losses on financing receivables during 1986 through 1988.

(In millions)	1988	1987	1986
Balance at January 1	$ 743	$ 603	$ 492
Additions charged to operations	434	290	558
Net transfers related to companies acquired and sold	89	21	14
Amounts written off	(294)	(171)	(461)
Balance at December 31	$ 972	$ 743	$ 603

Amounts written off in 1988 were approximately 0.81% of average financing receivables outstanding during the year, compared with 0.62% and 2.02% of average financing receivables outstanding during 1987 and 1986, respectively.

Note 10 Unusual Expenses

GE. Unusual expenses in prior years were provisions for corporate restructurings — $1,027 million in 1987 and $311 million in 1986. These were for the expenses of refocusing a wide variety of business and marketing activities and reducing foreign and domestic risk exposures. These provisions include costs of rationalizing and improving a large number of production facilities; rearranging production activities among a number of existing plants; and reorganizing, phasing out or otherwise concluding other activities no longer considered essential to the conduct of the Company's business.

GEFS. GEFS had provisions of $91 million in 1987 for unusual expenses and restructuring activities, including amounts related to insider trading charges and business restructuring activities of Kidder, Peabody.

Note 11 Provision for Income Taxes (excluding 1987 extraordinary item and cumulative effect of changes in accounting principles)

Provision for income taxes (In millions)	1988 GE	1988 GEFS	1988 Total	1987 GE	1987 GEFS	1987 Total	1986 GE	1986 GEFS	1986 Total
Estimated amounts payable (recoverable)	$1,311	$ (32)	$1,279	$1,246	$ (212)	$1,034	$1,358	$ (831)	$ 527
Deferred tax expense (benefit) from "temporary differences"	(152)	274	122	(71)	231	160	(120)	656	536
Investment credit deferred (amortized) — net	(63)	(3)	(66)	(87)	1	(86)	(38)	2	(36)
Effect of change in tax-rate assumptions for leveraged leases	—	—	—	—	—	—	—	(392)	(392)
	$1,096	$ 239	$1,335	$1,088	$ 20	$1,108	$1,200	$ (565)	$ 635

• "Estimated amounts payable" includes amounts applicable to foreign jurisdictions of $344 million, $197 million and $198 million in 1988, 1987 and 1986, respectively.

• General Electric Company files a consolidated U.S. federal income tax return that includes GEFS. GEFS' provision for estimated taxes recoverable includes its effect on the consolidated tax return. The amount of taxes recoverable as reported by GEFS has been reduced to the extent of consolidated investment tax credit carryforwards of $168 million and $275 million at December 31, 1987 and 1986, respectively. Investment tax credit carryforwards of $168 million and $107 million realized in 1988 and 1987, respectively, were reflected as reinstatements of deferred tax balances.

• Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. These "temporary differences" are determined in accordance with Statement of Financial Accounting Standards No. 96 (see note 1) commencing in 1987 and are more inclusive in nature than "timing differences" as determined under previously applicable generally accepted accounting principles. Deferred income taxes for 1986 have not been restated.

Items making up deferred U.S. federal income tax provisions are substantially different in nature for GE except GEFS and GEFS. Accordingly, the principal "temporary difference" items are summarized separately in the following table.

Deferred income tax expense (benefit) from temporary differences (In millions)	1988	1987	1986
GE except GEFS			
Tax over book depreciation	$ 34	$ 18	$ 87
Margin on installment sales	(4)	(16)	(33)
Provision for warranties	(149)	9	(27)
Provision for pensions	105	10	(52)
Other — net	(138)	(92)	(95)
	(152)	(71)	(120)
GEFS			
Financing lease income	287	338	573
Deferred commitment fees	2	15	(11)
Interest and discount expenses	(4)	16	28
Deferred expenses and other adjustments of insurance affiliates	(75)	(30)	33
Financing lease income of nonconsolidated joint ventures	—	(6)	11
State and local taxes	6	(3)	(8)
Depreciation of buildings and equipment	(2)	(24)	13
Operating leases	(58)	(27)	(28)
Tax transfer leases	7	(29)	26
Provision for losses	(65)	(106)	(74)
Earnings of associated companies	29	4	5
Tax credit carryforwards recognized as reinstatement (reduction) of deferred income taxes	168	107	83
Other — net	(21)	(24)	5
	274	231	656
	$122	$160	$536

"Other — net" includes the tax effects of a number of temporary differences such as those related to various portions of transactions involving business dispositions and restructuring expense provisions.

• The U.S. investment tax credit (ITC) was repealed, with some transitional exceptions, effective January 1, 1986. However, because of its use of the deferral method of accounting for the ITC, GE has an unamortized balance remaining. As a result of the accounting change in 1987, unamortized ITC is treated as a temporary difference for deferred tax accounting. GE's remaining unamortized ITC balance was $149 million, net of deferred tax at year-end 1988, and will be added to income in future years.

• See note 5 for further information about the 1986 effect of change in tax-rate assumptions for leveraged leases.

• The U.S. federal statutory tax rate on corporations was 34% in 1988, down from 40% in 1987 and 46% in 1986. Data about "effective tax rates," i.e., provision for income taxes as a percentage of earnings before income taxes, extraordinary item and cumulative effect of accounting changes, follow.

Effective tax rates (before extraordinary item and cumulative effect of accounting changes)

	1988	1987	1986
GE	24.5%	33.9%	32.5%
GEFS	23.3	3.5	(a)
Consolidated	28.3	34.3	20.3

(a) Calculation of an effective tax rate for 1986 is not meaningful for GEFS, which sustained a pre-tax loss of $61 million in that year and had a credit tax provision of $565 million. A significant factor in GEFS' 1986 operations was a required change in tax-rate assumption for leveraged leases in accordance with the Tax Reform Act of 1986 as discussed in more detail in note 5.

A reconciliation from the consolidated provision for income taxes that would have resulted using the U.S. federal statutory rate to the actual provision is shown below.

Differences between expected U.S. federal statutory tax-rate provision and actual tax provision

(In millions)	1988	1987	1986
Expected consolidated tax provision at statutory rates	$1,605	$1,291	$1,438
Increase (reduction) in taxes resulting from GE			
Inclusion of GEFS earnings (before extraordinary item and cumulative effect of accounting change) in before-tax income on an after-tax basis	(268)	(221)	(232)
Varying tax rates of other affiliates (principally foreign)	(115)	(117)	(80)
Amortization of investment tax credit	(70)	(88)	(87)
Income taxes at capital gains rate	—	(18)	(54)
Varying rates on unusual items	—	25	(14)
Current-year effect of income tax accounting change	—	133	—
All other — net	25	91	(31)
	(428)	(195)	(498)
Increase (reduction) in taxes resulting from GEFS			
Amortization of investment tax credit on financing and operating leases	(17)	(27)	(17)
Dividends received which are not fully taxable	(17)	(13)	(20)
Income from tax-exempt marketable securities	(104)	(112)	(108)
Income taxes at capital gains rate	—	(14)	(41)
Fresh-start provision of insurance affiliates	(22)	—	—
Change in tax-rate assumptions for leveraged leases (note 5)	(14)	(31)	(357)
All other — net	64	(12)	6
	(110)	(209)	(537)
Eliminations	268	221	232
Actual consolidated tax provision	$1,335	$1,108	$ 635

• Provision has been made for U.S. federal income taxes to be paid on that portion of the undistributed earnings of affiliates and associated companies expected to be remitted to the parent company. Undistributed earnings intended to be reinvested indefinitely in affiliates and associated companies totaled $1,097 million, $1,318 million and $1,063 million at the end of 1988, 1987 and 1986, respectively. It is estimated that foreign tax credits would approximately offset the U.S. taxes payable if these earnings were to be distributed.

• Based on the location (not tax jurisdiction) of the business providing goods or services, consolidated domestic income before taxes, extraordinary item and cumulative effect of changes in accounting principles was $3,936 million in 1988, $2,710 million in 1987 and $2,516 million in 1986. The corresponding amounts for foreign-based operations were $785 million, $517 million and $611 million in each of those years, respectively.

Note 12 Cash

Deposits restricted as to usage and withdrawal or used as partial compensation for short-term borrowing arrangements were not material for either GE except GEFS or GEFS. See notes 22 and 26 for related information about credit lines and compensating balances.

Note 13 Marketable Securities Carried at Cost

Carrying value of marketable securities for GE except GEFS was substantially the same as market value at year-ends 1988 and 1987. Market value of GEFS' securities carried at amortized cost was $5,537 million and $4,592 million at December 31, 1988 and 1987, respectively.

Note 14 GEFS Marketable Securities Carried at Market

December 31 (In millions)	1988	1987
U.S. government and federal agency securities	$2,433	$1,822
State and municipal securities	215	426
Corporate stocks, bonds and foreign securities	2,441	1,752
	$5,089	$4,000

At December 31, 1988, the carrying value of equity securities carried at market value included unrealized gains and unrealized losses of approximately $19 million and $30 million, respectively.

A significant portion of securities carried at market value at December 31, 1988 was pledged as collateral for bank loans and repurchase agreements. In addition, Kidder, Peabody borrows and lends securities to obtain financing and to facilitate the securities settlement process.

Note 15 GE Current Receivables

December 31 (In millions)	1988	1987
Receivable from:		
Customers	$5,289	$5,463
Associated companies	160	155
Others	1,857	1,374
	7,306	6,992
Less allowance for losses	(196)	(210)
	$7,110	$6,782

Note 16 GE Inventories

December 31 (In millions)	1988	1987
Raw materials and work in process	$ 5,603	$ 5,515
Finished goods	2,863	2,546
Unbilled shipments	246	280
	8,712	8,341
Less revaluation to LIFO	(2,226)	(2,076)
LIFO value of inventories	$ 6,486	$ 6,265

LIFO revaluations increased $150 million in 1988 primarily because of price increases. LIFO revaluations increased $324 million in 1987, mostly related to the accounting change described in note 1, but decreased $104 million in 1986. Included in these changes were decreases of $23 million, $22 million and $51 million (1988, 1987 and 1986, respectively) due to lower inventory levels. In 1988 and 1987, there was a net current-year price increase but in 1986 there was a price decrease. About 86% of total inventories is valued using the LIFO method of inventory accounting.

Note 17 GEFS Financing Receivables (investment in time sales, loans and financing leases)

December 31 (In millions)	1988	1987
Time sales and loans		
Commercial real estate financing	$ 7,114	$ 6,131
Commercial and industrial loans	7,269	5,384
Retailer financing	7,465	3,406
Home and recreation financing	1,888	2,011
Equipment sales financing	1,826	1,502
Other	1,208	1,126
	26,770	19,560
Deferred income	(983)	(1,000)
Time sales and loans — net of deferred income	25,787	18,560
Investment in financing leases		
Direct financing leases	8,433	7,410
Leveraged leases	2,691	2,704
	11,124	10,114
	36,911	28,674
Less allowance for losses	(972)	(743)
	$35,939	$27,931

• "Time sales and loans" represents transactions in a variety of forms, including time sales, revolving charge and credit, mortgages, installment loans, intermediate-term loans, and revolving loans secured by business assets and mandatorily redeemable preferred stock. The portfolio includes time sales and loans carried at the principal amount on which finance charges are billed periodically, and time sales and loans acquired on a discount basis carried at gross book value, which includes finance charges.

• "Financing leases" consists of direct financing and leveraged leases of aircraft, railroad rolling stock, automobiles and other transportation equipment, data processing equipment, medical equipment, and other manufacturing, power generation, mining and commercial equipment and facilities. As the sole owner of assets under direct financing leases and as the equity participant in leveraged leases, GEFS is taxed on total lease payments received and is entitled to tax deductions based on the cost of leased assets and tax deductions for interest paid to third-party participants. GEFS also is entitled generally to any investment tax credit on leased equipment and to any residual value of leased assets. Investments in direct financing and leveraged leases represent unpaid rentals and estimated unguaranteed residual values of leased equipment, less related deferred income and principal and interest on notes and other instruments representing third-party participation. Because GEFS has no general obligation on such notes and other instruments representing third-party participation, such notes and other instruments have not been included in liabilities but have been offset against the related rentals receivable. GEFS' share of rentals receivable is subordinate to the share of the other participants who also have a security interest in the leased equipment.

Additional detail of investment in financing leases at December 31, 1988 and 1987 is shown below.

Investment in financing leases	Direct financing leases		Leveraged leases		Total financing leases	
December 31 (In millions)	1988	1987	1988	1987	1988	1987
Total minimum lease payments receivable	$10,109	$ 8,660	$10,745	$11,171	$20,854	$19,831
Less principal and interest on third-party nonrecourse debt	—	—	(7,893)	(8,361)	(7,893)	(8,361)
Rentals receivable	10,109	8,660	2,852	2,810	12,961	11,470
Estimated unguaranteed residual value of leased assets	1,102	853	817	855	1,919	1,708
Less deferred income (a)	(2,778)	(2,103)	(978)	(961)	(3,756)	(3,064)
Investment in financing leases	8,433	7,410	2,691	2,704	11,124	10,114
Less allowance for losses	(121)	(115)	(74)	(137)	(195)	(252)
Less deferred taxes arising from financing leases	(1,218)	(940)	(2,406)	(2,397)	(3,624)	(3,337)
Net investment in financing leases	$ 7,094	$ 6,355	$ 211	$ 170	$ 7,305	$ 6,525

(a) Total financing lease deferred income is net of deferred initial direct costs of $33 million and $47 million for 1988 and 1987, respectively.

Experience has shown that a substantial portion of receivables will be paid prior to contractual maturity. Accordingly, the maturities of time sales and loans and rentals receivable at December 31, 1988 shown in the table below are not to be regarded as forecasts of future cash collections. During 1988 and 1987, cash collections were $26,019 million and $19,914 million, respectively, and the ratio of cash collections to average financing receivables was 72.5% and 72.8%, respectively. Contractual maturities of time sales and loans and rentals receivable at December 31, 1988 are shown in the following table.

Contractual maturities (In millions)	Total	1989	1990	1991	1992	1993	1994 and after
Time sales and loans							
Commercial real estate financing	$ 7,114	$ 89	$ 240	$ 432	$ 1,009	$ 2,036	$ 3,308
Commercial and industrial loans	7,269	1,305	761	1,007	716	658	2,822
Retailer financing	7,465	5,360	1,705	347	30	13	10
Home and recreation financing	1,888	744	154	140	125	114	611
Equipment sales financing	1,826	618	505	326	195	111	71
Other	1,208	257	188	59	52	42	610
	26,770	8,373	3,553	2,311	2,127	2,974	7,432
Rentals receivable							
Direct financing leases	10,109	2,683	2,197	1,505	1,183	664	1,877
Leveraged leases	2,852	74	119	138	148	154	2,219
	12,961	2,757	2,316	1,643	1,331	818	4,096
	$39,731	$11,130	$ 5,869	$ 3,954	$ 3,458	$ 3,792	$11,528

Note 18 Other GEFS Receivables from and Payables to Brokers and Dealers

Included in other receivables and other liabilities of GEFS are amounts receivable from and payable to brokers and dealers in connection with Kidder, Peabody's normal trading, lending and borrowing of securities. At December 31, 1988 and 1987, amounts consisted of the following.

December 31 (In millions)	1988	1987
Included in other receivables		
Securities failed to deliver	$ 132	$ 220
Deposits paid for securities borrowed	1,226	1,388
Other, principally clearing organizations	32	59
	$1,390	$1,667
Included in other liabilities		
Securities failed to receive	$ 451	$ 198
Deposits received for securities loaned	903	1,056
Other, principally clearing organizations	48	74
	$1,402	$1,328

Note 19 Property, Plant and Equipment (including equipment leased to others)

December 31 (In millions)	1988	1987
Original cost		
GE		
Land and improvements	$ 260	$ 232
Buildings, structures and related equipment	4,250	4,127
Machinery and equipment	12,957	12,616
Leasehold costs and manufacturing plant under construction	1,126	796
Oil and gas properties	764	801
	19,357	18,572
GEFS		
Buildings and equipment	745	485
Equipment leased to others		
Vehicles	1,564	1,668
Railroad rolling stock	1,038	907
Marine shipping containers	857	513
Aircraft	618	216
Data processing equipment	355	345
Other	634	408
	5,811	4,542
	$25,168	$23,114
Accumulated depreciation, depletion and amortization		
GE	$ 9,997	$ 9,317
GEFS	1,560	824
	$11,557	$10,141

GEFS' accumulated amortization of equipment leased to others was $1,321 million and $658 million at December 31, 1988 and 1987, respectively. Amortization during

1988, 1987 and 1986 was $665 million, $316 million and $327 million, respectively.

At December 31, 1988, GE except GEFS had minimum rental commitments under noncancelable operating leases aggregating $3,058 million. Amounts payable over the next five years are: 1989 – $452 million; 1990 – $410 million; 1991 – $367 million; 1992 – $320 million; and 1993 – $270 million.

At December 31, 1988, GEFS had minimum rental commitments under noncancelable operating leases aggregating $787 million. Amounts payable over the next five years are: 1989 – $134 million; 1990 – $112 million; 1991 – $95 million; 1992 – $65 million; and 1993 – $55 million.

Note 20 Intangible Assets

December 31 (In millions)	1988	1987
GE		
Goodwill	$6,423	$3,820
Other intangibles	561	610
	6,984	4,430
GEFS		
Goodwill	1,364	1,106
Other intangibles	204	212
	1,568	1,318
	$8,552	$5,748

Accumulated amortization of GE's goodwill was $318 million and $301 million at December 31, 1988 and 1987, respectively. Accumulated amortization of other intangibles for GE was $455 million and $365 million at December 31, 1988 and 1987, respectively. The largest GE goodwill and other intangibles were from the RCA acquisition, for which goodwill is being amortized on a straight-line basis over 40 years. The increase in goodwill since December 31, 1987 was mainly from acquisitions of Roper Corporation, Borg-Warner's chemicals businesses and WTVJ-Miami, and final valuation of CGR assets. These balances also are being amortized over 40 years. All other GE intangibles and goodwill are being amortized over shorter periods as appropriate, ranging from one year to 20 years.

Accumulated amortization of GEFS' goodwill was $133 million and $82 million at December 31, 1988 and 1987, respectively. Accumulated amortization of GEFS' other intangibles was $73 million and $56 million at December 31, 1988 and 1987, respectively. The increase in GEFS' goodwill since December 31, 1987 represented primarily goodwill related to auto auctions previously not consolidated and goodwill arising from the acquisitions of Gelco and MW Credit Operations. GEFS' intangible assets are being amortized over various periods not longer than 30 years. GEFS' other intangibles represent principally the value of insurance-in-force related to Employers Reinsurance's property and casualty reinsurance business, which is being amortized on a straight-line basis over its estimated life of approximately 16 years.

Note 21 All Other Assets

December 31 (In millions)	1988	1987
GE		
Investments		
Associated companies (including advances of $29 million and $45 million)	$ 647	$ 826
Miscellaneous investments (at cost)		
Government and government-guaranteed securities	202	169
Other	175	631
Marketable equity securities	72	90
Funds held for business development	—	81
Less allowance for losses	(100)	(75)
	996	1,722
Prepaid pension assets	1,177	573
Recoverable engineering costs on government contracts	752	791
Long-term receivables	675	569
Television program costs	352	480
Deferred charges	318	416
Real estate development projects	73	130
Customer financing	73	71
Other	205	144
	4,621	4,896
GEFS		
Investment in associated companies (including advances of $389 million and $184 million)	1,145	755
Miscellaneous investments (at cost)	393	143
Broker-dealer cash and securities segregated by regulation	383	42
Deferred insurance acquisition costs	262	235
Deferred charges	225	182
Real estate properties	122	82
Other	888	266
	3,418	1,705
	$8,039	$6,601

For GE, the estimated realizable value of miscellaneous investments was about the same as cost at year end. The aggregate market value of marketable equity securities, which are carried at cost, was $72 million and $86 million at year-ends 1988 and 1987, respectively. Gross unrealized gains and losses were each $15 million at December 31, 1988.

The National Broadcasting Company (NBC, an affiliate of GE) capitalizes program costs (including rights to broadcast) when paid or when a program is ready for broadcast, if earlier. These costs are amortized based upon projected revenues or expensed when a program is determined to have no value.

At year-end 1988, NBC had approximately $1.24 billion of commitments to acquire broadcast material or the rights to broadcast television programs that require payments over the next five years.

Note 22 Short-Term Borrowings

Amount and average rate at December 31

(In millions)	1988 Amount	1988 Rate	1987 Amount	1987 Rate
GE				
Notes with trust departments	$ 337	8.5%	$ 320	6.6%
Affiliate bank borrowings (principally foreign)	261	25.7	364	35.2
Other, including current portion of long-term borrowings	1,263		426	
	1,861		1,110	
GEFS				
Commercial paper	24,591	9.32	18,790	7.77
Banks	1,987	9.34	1,650	8.11
Current portion of long-term borrowings	790		1,118	
Notes with trust departments	990	8.48	965	6.78
Passbooks and investment certificates	373		325	
	28,731		22,848	
Eliminations	(170)		(85)	
	$30,422		$23,873	

The average balance of short-term borrowings for GE except GEFS, excluding the current portion of long-term borrowings, was $1,416 million in 1988 (calculated by averaging month-end balances for the year) compared with an average balance of $1,492 million in 1987. The maximum balances in these calculations were $2,444 million at the end of September 1988 and $2,048 million at the end of June 1987. The average worldwide effective interest rate for the year 1988 was 15%; for 1987, it was 13%. These average rates represent total short-term interest incurred divided by the average balance outstanding. Although the total unused credit available to GE through banks and commercial credit markets is not readily quantifiable, confirmed credit lines of about $1.3 billion had been extended by 48 banks at year-end 1988. Substantially all of these lines also are available for use by GECC and GEFS in addition to their own credit lines (see note 26).

The average daily balance of GEFS' borrowings, excluding the current portion of long-term borrowings, was $27,889 million in 1988 compared with $20,147 million for 1987. The December 5, 1988 balance of $30,385 million was the maximum balance in 1988. The October 21, 1987 balance of $23,463 million was the maximum balance in 1987. The average short-term interest rate, excluding the current portion of long-term debt, was 7.96% for 1988, representing short-term interest expense divided by the average daily balance, compared with 7.25% for 1987.

Note 23 Accounts Payable

December 31 (In millions)	1988	1987
GE		
Trade accounts	$1,939	$2,105
Collected for the account of others	180	279
Other	17	231
	2,136	2,615
GEFS		
Accounts and drafts payable	4,132	3,329
Eliminations	(264)	(216)
	$6,004	$5,728

Note 24 GEFS Securities Sold but Not Yet Purchased, at Market

December 31 (In millions)	1988	1987
U.S. government and federal agency securities	$1,560	$1,000
State and municipal securities	9	16
Corporate stocks, bonds and foreign securities	519	391
	$2,088	$1,407

Note 25 GE All Other Current Costs and Expenses Accrued

At year-ends 1988 and 1987, this account included taxes accrued of $1,568 million and $1,382 million, respectively, and compensation and benefit accruals of $982 million and $777 million, respectively. Also included are amounts for product warranties, estimated costs on shipments billed to customers and a wide variety of other sundry items.

Note 26 Long-Term Borrowings

December 31 (In millions)	1988	1987
GE	$ 4,330	$ 4,491
GEFS	10,862	8,037
Eliminations	(110)	(11)
	$15,082	$12,517

Outstanding balances in long-term borrowings for GE at December 31, 1988 and 1987 are as follows.

GE long-term borrowings

December 31 (In millions)	1988	1987
7⅛% Notes Due 1989	$ —	$ 500
6⅞% Notes Due 1989	—	500
12¼% Australian Dollar Notes Due 1989 (a)	—	108
16¼% Notes Due 1987-1989 (b)	—	35
5¾% Notes Due 1972-1991	13	19
6⅞% Notes Due 1991	500	500
7⅛% Euro-dollar Notes Due 1991	300	300
5.30% Sinking Fund Debentures Due 1973-1992	28	34
12¾% Notes Due 1992 (b)	100	100
7% Notes Due 1992	250	250
7⅝ per cent. Notes Due 1992 (c)	178	—
5¾% Euro-yen Notes Due 1993 (d)	194	194
4⅛% Euro-dollar Discount Notes Due 1993 (e)	200	200
9⅛% Notes Due 1993 (f)	528	—
2¾% Discount Notes Due 1994 (e) (g)	150	150
7% Euro-dollar Extendible Notes Due 1998 (h) (i)	200	200
8½% Debentures Due 1985-2004	217	217
8% Euro-dollar Extendible Notes Due 2006 (i) (j)	300	300
7⅜% Euro-dollar Extendible Notes Due 2006 (i) (k)	300	300
8⅝% Sinking Fund Debentures Due 2016	300	300
Industrial development bonds	262	225
All other	310	59
	$4,330	$4,491

(a) The Company has entered into certain contracts which result in a fixed U.S. dollar interest cost of 7.67%.
(b) Debt originally incurred by RCA but for which GE is now the obligor.
(c) Principal and interest (7⅝% coupon rate) denominated in European Currency Units. In connection with this issue, GE entered into a Japanese yen currency and interest-rate swap agreement under which GE assumes a fixed yen liability (22,262 million) for payment of principal in 1992 and pays interest in yen to the commercial bank counterparty at somewhat below the six-month LIBOR yen rate.
(d) Notes are yen 35 billion at a fixed exchange rate of yen 180.41 = $U.S. 1.00.
(e) Including amortization of original issue discount, the effective interest rates are: 4⅛% notes — 7.41%, 2¾% notes — 7.66%.
(f) Principal and interest (9⅛% coupon rate) denominated in U.S. dollars. In connection with this issue, GE entered into currency and interest-rate swap agreements under which GE assumes (1) a fixed Dutch guilder liability (632 million) and (2) a fixed German mark liability (373 million) for payment of principal in 1993 and pays interest in the respective currencies to the commercial bank counterparty at somewhat below the respective currency three-month LIBOR rate.
(g) Accompanied by sale of 3,570,000 warrants expiring December 1, 1989 to purchase shares of GE common stock at $44.31 per share. GE has arranged for options on its stock in order to preclude any dilution from exercise of the warrants.
(h) Interest rate subject to annual adjustment at the Company's option beginning in 1989.
(i) At annual rate adjustment dates, notes are redeemable in whole or in part at the option of the Company or repayable at the option of the holders at face value plus accrued interest.
(j) Interest rate subject to annual adjustment at the Company's option beginning in 1993.
(k) Interest rate subject to annual adjustment at the Company's option beginning in 1991.

"All other" includes original issue premium and discounts, an adjustment to bring RCA borrowings at acquisition date to fair market value, and a variety of borrowings by affiliates and parent components with various interest rates and maturities.

Long-term borrowing maturities during the next five years, including the portion classified as current, are $1,233 million in 1989, $51 million in 1990, $824 million in 1991, $572 million in 1992 and $952 million in 1993. These amounts are after deducting debentures which have been reacquired for sinking-fund needs.

Outstanding balances in long-term borrowings for GEFS at December 31, 1988 and 1987 are as follows.

GEFS long-term borrowings

December 31 (In millions)	1988	1987
Senior		
Master notes (a)	$ 181	$ 187
6.39% Notes Due 1990 (b)	50	50
6.51% Notes Due 1990 (c)	72	72
8% Notes Due 1990	100	100
8.125% Notes Due 1990	100	100
8.875% Notes Due 1990	200	200
10% Notes Due 1990	—	200
7.75% Notes Due 1991	250	—
8.25% Notes Due 1991	600	—
9.75% Notes Due 1991	98	100
11% Notes Due 1991	—	200
12.75% Notes Due 1991	126	150
13.625% Notes Due 1991	—	150
7.125% Notes Due 1992	250	250
8.75% Notes Due 1992	300	300
8.75% Notes Due 1992	250	—
9.50% Notes Due 1992	250	250
Zero Coupon Notes Due 1992 (d)	357	400
9% Notes Due 1993	1,000	—
10.25% Notes Due 1993 (e)	143	—
Zero Coupon Notes Due 1993 (d)	374	400
Zero Coupon Notes Due 1994 (f)	171	200
12% Notes Due 1994	117	200
9.5% Notes Due 1995	300	—
Zero Coupon Notes Due 1995 (f)	432	500
7.250% Notes Due 1996 (g)	153	153
Zero Coupon Notes Due 1996 (h)	551	600
9.95% Notes Due 1998	125	—
10.375% Notes Due 2000 (i) (j)	186	200
10.25% Notes Due 2000 (i)	—	200
5.50% Notes Due 2001 (k)	385	500
11.75% Notes Due 2005	137	200
9.75% Notes Due 2005 (i) (l)	156	200
8.75% Notes Due 2007 (m) (n)	500	500
9.375% Notes Due 2007 (i) (o)	106	300
8% Notes Due 2011 (i) (p)	250	250
6.75% Notes Due 2011 (i) (q)	250	250
8.25% Notes Due 2011 (i) (r)	250	250
8.75% Notes Due 2011 (i) (s)	300	300
7.50% Notes Due 2018 (t)	500	—
8.25% Notes Due 2018 (m) (u)	500	—
Floating Rate Notes Due 2048 (v)	164	—
Other notes due 1988-2024	1,440	1,319
Less unamortized discount	(1,136)	(1,466)
Total senior	10,538	7,765
Subordinated		
8.125% Notes Due 1988-92	15	20
4.85% Notes Due 1990	25	25
8.125% Notes Due 1991	25	25
12.25% Notes Due 1992	78	79
7.85% Notes Due 1993	12	12
8.25% Notes Due 1997	50	50
Other notes due 1988-2004	119	61
Total subordinated	324	272
Total long-term notes	$10,862	$ 8,037

(a) Notes have a rolling 13-month or 15-month maturity and bear interest based principally on GE Capital's 180-day open-market notes.
(b) Principal and interest (15.00% coupon rate) denominated in Australian dollars. In connection with this issue, GEFS entered into a U.S. dollar currency and interest-rate swap agreement under which GEFS assumes a fixed U.S. dollar liability for payment of principal in 1990 and pays interest in U.S. dollars to the commercial bank counterparty at 6.39% on the U.S. dollar liability.
(c) Principal and interest denominated in New Zealand dollars. Coupon interest is 200 basis points below the New Zealand 90-day bank bill rate reset quarterly. In connection with this issue, GEFS entered into a U.S. dollar currency and interest-rate swap agreement under which GEFS assumes a fixed U.S. dollar liability for payment of principal in 1990 and pays interest in U.S. dollars to the commercial bank counterparty at 6.51% on the U.S. dollar liability.
(d) Discounted to yield 14.39%.
(e) Principal and interest denominated in Canadian dollars. In connection with this issue, GEFS entered into a pound sterling currency and interest-rate swap agreement under which GEFS assumes a fixed pound sterling liability for payment of principal in 1993 and pays a floating rate of interest in pound sterling to the commercial bank counterparties.
(f) Discounted to yield 14.47%.
(g) No stated maturity date. Issuer calls and investor puts available at 10-year intervals. Principal denominated in Swiss francs, but GEFS can limit the ultimate retirement to no more than $153 million. Annual interest fixed for the first 10-year interval at $11 million.
(h) Discounted to yield 12.04%.
(i) Extendible notes. GEFS will reset interest rates at end of initial and each subsequent interest period. At each rate-reset date, holders may redeem notes at face value plus accrued interest. Extendible notes are included in the current portion of long-term debt when the interest-rate-reset date is within one year.
(j) The 10.375% initial interest rate applies until February 20, 1990.
(k) Discounted to yield 15.80%.
(l) The 9.75% initial interest rate applies until October 9, 1992.
(m) Remarketed reset notes. The interest rate will be reset at end of initial and subsequent interest periods (2-5 years) pursuant to an established formula agreed to by GEFS and the remarketing underwriter.
(n) The 8.75% initial interest rate applies until December 15, 1990.
(o) The 9.375% initial interest rate applies until October 15, 1990.
(p) The 8% initial interest rate applies until March 1, 1990.
(q) The 6.75% initial interest rate applies until November 1, 1991.
(r) The 8.25% initial interest rate applies until March 1, 1993.
(s) The 8.75% initial interest rate applies until March 4, 1993.
(t) Reset notes. The 7.50% initial interest rate applies until March 15, 1991. The interest rate will be reset on March 15th in every third year thereafter to a rate equal to 108% of the three-year treasury rate.
(u) The 8.25% initial interest rate applies until May 1, 1991.
(v) The rate of interest payable on each note is a variable rate. The interest rate is based on the commercial paper rate each month. Interest on the notes is payable at the option of GEFS either annually or semiannually.

• Long-term borrowing maturities during the next five years, including the current portion of notes payable after one year, are: 1989 — $790 million; 1990 — $1,320 million (including $181 million of notes having a rolling 13-month or 15-month maturity); 1991 — $1,226 million; 1992 — $1,472 million; and 1993 — $1,610 million.

• In December 1987, GE Capital initiated a debt extinguishment program to use the proceeds from the issuance of new long-term debt to repurchase or redeem approximately $1.1 billion of existing debt at market prices or

redemption premiums in excess of the net carrying amounts. This resulted in an after-tax loss of $62 million (net of $39 million tax credit) that was reported as an extraordinary item in the consolidated Statement of Earnings for the year 1987. The extinguishments were completed during the first quarter of 1988.

• At December 31, 1988, GE Capital had established lines of credit aggregating $11,835 million with 182 banks, including $9,805 million of revolving credit agreements with 124 banks pursuant to which GE Capital has the right to borrow funds for periods exceeding one year. In addition, at December 31, 1988, approximately $1,235 million of GE's credit lines were available for use by GE Capital. A total of $3,900 million of these lines also was available for use by GE Financial Services. During 1988, GEFS did not borrow under any of these credit lines.

GEFS compensates banks for credit facilities in the form of fees or a combination of balances and fees as agreed to with the bank.

• At December 31, 1988, Kidder, Peabody had established lines of credit aggregating $3,968 million, of which $333 million was available on an unsecured basis. Borrowings from banks were primarily unsecured demand obligations, at interest rates approximating broker call loan rates, to finance inventories of securities and to facilitate the securities settlement process.

• At December 31, 1988, GE Financial Services had interest-rate swap agreements outstanding in the notional principal amount of $799 million under which GE Financial Services agreed to pay interest at fixed rates ranging from 12.40% to 14.38% in exchange for interest at floating rates (LIBOR) on the notional amounts. GE Financial Services also had interest-rate swap agreements in the notional principal amount of $300 million under which GE Financial Services agreed to pay interest at floating rates (LIBOR) and receive interest at fixed rates ranging from 7.81% to 8.32%.

Note 27 GE All Other Liabilities

For GE except GEFS, this account includes noncurrent compensation and benefit accruals at year-ends 1988 and 1987 of $1,516 million and $1,449 million, respectively. Other noncurrent liabilities include amounts for product warranties, deferred incentive compensation, deferred investment tax credit, deferred income and a wide variety of other sundry items.

Note 28 Minority Interest in Equity of Consolidated Affiliates

December 31 (In millions)	1988	1987
GE	$228	$190
GEFS	753	112
	$981	$302

The increase of $641 million in minority interest in equity of consolidated GEFS affiliates in 1988 was due primarily to issuance by GE Capital of six thousand shares of $100 par value variable cumulative preferred stock for net proceeds of approximately $600 million. Dividend rates on this preferred stock during 1988 ranged from 5.70% to 8.38%.

Note 29 Share Owners' Equity

GE preferred stock up to 50,000,000 shares ($1.00 par value) is authorized, but no such shares have been issued. Authorized shares of common stock (par value $0.63) total 1,100,000,000.

Shares of GE common stock December 31 (In thousands)	1988	1987	1986
Issued	926,564	926,564	926,564
In treasury	(24,448)	(23,611)	(14,774)
Outstanding	902,116	902,953	911,790

GE share owners' equity is as follows.

GE share owners' equity (In millions)	1988	1987	1986
Common stock issued			
Balance January 1	$ 584	$ 579	$ 579
Adjustment for stock split	—	5	—
Balance December 31	$ 584	$ 584	$ 579
Other capital			
Balance January 1	$ 878	$ 733	$ 641
Adjustment for stock split	—	(5)	—
Foreign currency translation adjustments	(39)	145	75
Unrealized gains (losses) on securities held by insurance affiliates	18	(33)	(6)
Gains (losses) on treasury stock dispositions	(34)	30	23
Other	—	8	—
Balance December 31	$ 823	$ 878	$ 733
Retained earnings			
Balance January 1	$15,878	$14,172	$12,761
Net earnings	3,386	2,915	2,492
Dividends declared	(1,314)	(1,209)	(1,081)
Balance December 31	$17,950	$15,878	$14,172
Common stock held in treasury			
Balance January 1	$ 860	$ 375	$ 310
Purchases	387	846	348
Dispositions			
Employee savings plans	(213)	(148)	(109)
Stock options and appreciation rights	(77)	(96)	(71)
Employee stock ownership plan	(11)	(39)	(41)
Dividend reinvestment and share purchase plan	(49)	(42)	(33)
Contribution to GE Pension Trust	—	(25)	(26)
Conversion of long-term debt	(1)	(24)	(7)
Incentive compensation plans	(5)	13	4
Balance December 31	$ 891	$ 860	$ 375

In April 1987, GE share owners authorized (a) an increase in the number of authorized shares of common stock from 550,000,000 shares each with a par value of $1.25 to 1,100,000,000 shares each with a par value of $0.63; (b) the split of each previously issued common share, including shares held in treasury, into two shares of common stock each with a par value of $0.63; and (c) an increase in the number of authorized shares of preferred stock from 2,000,000 shares with a par value of $1.00 per share to 50,000,000 shares with a par value of $1.00 per share. All share data have been adjusted for this change.

The effects of translating to U.S. dollars the financial statements of foreign affiliates whose functional currency is the local currency are included in other capital. Cumulative foreign currency translation adjustments were $137 million, $176 million and $31 million of additions to other capital at December 31, 1988, 1987 and 1986, respectively.

Note 30 Other Stock-Related Information

Stock option plans, appreciation rights and performance units are described in the Company's current Proxy Statement. Requirements for stock option shares may be met within certain restrictions either from unissued or treasury shares. During 1988, options were granted to 1,347 employees. As of December 31, 1988, a total of 444 individuals were eligible to receive class-grant options, and all exempt salaried employees were eligible for special option grants. A total of 2,218 persons held options exercisable at the end of 1988 or in the future.

Stock option information		Average per share	
(Shares in thousands)	Shares subject to option	Option price	Market price
Balance at January 1, 1988	18,613	$33.95	$44.13
Options granted	3,232	43.83	43.83
Options exercised	(1,578)	22.23	43.48
Options surrendered on exercise of appreciation rights	(91)	28.01	45.04
Options terminated	(240)	41.62	—
Balance at December 31, 1988	19,936	36.41	44.75

Outstanding options and rights expire and the award period for outstanding performance units ends on various dates from January 1, 1989 to December 16, 1998. Shares available for granting additional options at the end of 1988 were 11,936,568 (15,148,114 at the end of 1987).

Note 31 Commitments and Contingent Liabilities

At December 31, 1988, there were no known contingent liabilities (including guarantees, pending litigation, taxes and other claims) that, in the opinion of management, would be material in relation to General Electric Company and consolidated affiliates' financial position, nor were there any material commitments outside the normal course of business.

Note 32 Supplemental Cash Flows Information

- "All other operating activities" in the Statement of Cash Flows are principally adjustments to current and noncurrent accruals of costs and expenses, amortization of premium and discount on debt, and adjustments to assets such as amortization of goodwill and intangibles.
- Information about acquisitions and dispositions can be found in notes 2 and 3.
- Cash used in each of the last three years included the following.

(In millions)	1988	1987	1986
Interest (paid)			
GE	$ (640)	$ (577)	$ (407)
GEFS	(4,030)	(3,301)	(1,916)
	$(4,670)	$(3,878)	$(2,323)
Income taxes (paid) recovered (federal, foreign, state and local)			
GE	$(1,284)	$(1,096)	$(1,546)
GEFS	251	403	942
	$(1,033)	$ (693)	$ (604)

- Details of "net change in certain broker-dealer accounts" are shown below.

(In millions)	1988	1987	1986
Marketable securities of broker-dealer	$(1,009)	$ 1,826	$(1,472)
Securities purchased under agreements to resell	(922)	72	(5,717)
Securities sold under agreements to repurchase	677	117	5,331
Securities sold but not yet purchased	681	(2,118)	560
	$ (573)	$ (103)	$(1,298)

- Details of "net increase in GEFS financing receivables" follow.

(In millions)	1988	1987	1986
Increase in loans to customers	$(23,731)	$(18,990)	$(18,795)
Principal collections from customers	19,802	15,370	15,321
Investment in equipment for financing leases	(5,031)	(3,117)	(1,632)
Principal collections on financing leases	3,974	2,291	1,399
Net change in credit card receivables	(957)	(181)	(72)
	$ (5,943)	$ (4,627)	$ (3,779)

- GEFS' "all other investing activities" includes the following.

(In millions)	1988	1987	1986
GEFS			
Purchases of marketable securities by insurance affiliates	$(3,188)	$(3,769)	$(3,565)
Dispositions of marketable securities by insurance affiliates	2,334	2,624	2,709
Other	(1,153)	(137)	(761)
	$(2,007)	$(1,282)	$(1,617)

- GEFS' "debt having maturities more than 90 days" includes the following.

(In millions)	1988	1987	1986
Newly issued debt			
Short-term (91-365 days)	$ 5,916	$ 5,546	$ 4,701
Long-term senior	3,936	1,927	1,584
Long-term subordinated	58	—	—
Proceeds – nonrecourse, leveraged lease debt	381	345	(90)
	$10,291	$ 7,818	$ 6,195
Repayments and other reductions			
Short-term	$ (6,220)	$ (5,836)	$ (4,283)
Long-term senior	(2,284)	(526)	(956)
Long-term subordinated	(6)	(20)	(158)
Principal payments – nonrecourse, leveraged lease debt	(261)	(263)	(251)
	$ (8,771)	$ (6,645)	$ (5,648)

Note 33 Industry Segment Details

Revenues
For the years ended December 31

(In millions)	Total revenues 1988	Total revenues 1987	Total revenues 1986	Intersegment revenues 1988	Intersegment revenues 1987	Intersegment revenues 1986	External revenues 1988	External revenues 1987	External revenues 1986
GE									
Aerospace	$ 5,343	$ 5,262	$ 4,318	$ 166	$ 78	$ 73	$ 5,177	$ 5,184	$ 4,245
Aircraft Engines	6,481	6,773	5,977	119	48	57	6,362	6,725	5,920
Broadcasting	3,638	3,241	1,888	—	—	2	3,638	3,241	1,886
Industrial	7,061	6,662	6,770	706	708	763	6,355	5,954	6,007
Major Appliances	5,289	4,721	4,352	—	—	—	5,289	4,721	4,352
Materials	3,539	2,751	2,331	40	32	34	3,499	2,719	2,297
Power Systems	4,805	4,995	5,262	126	125	185	4,679	4,870	5,077
Technical Products and Services	4,431	3,670	3,021	161	337	160	4,270	3,333	2,861
Earnings of GEFS	788	552	504	—	—	—	788	552	504
All Other	394	3,176	3,379	—	4	16	394	3,172	3,363
Corporate Items and Eliminations	(1,477)	(1,287)	(1,077)	(1,318)	(1,332)	(1,290)	(159)	45	213
Total GE	40,292	40,516	36,725	—	—	—	40,292	40,516	36,725
GEFS									
Financing	5,827	3,507	2,594	—	—	—	5,827	3,507	2,594
Insurance	2,469	2,206	2,017	—	—	—	2,469	2,206	2,017
Securities Broker-Dealer	2,316	2,491	1,176	—	—	—	2,316	2,491	1,176
All Other	43	21	27	—	—	—	43	21	27
Total GEFS	10,655	8,225	5,814	—	—	—	10,655	8,225	5,814
Eliminations	(858)	(583)	(526)	—	—	—	(858)	(583)	(526)
Consolidated revenues	$50,089	$48,158	$42,013	$ —	$ —	$ —	$50,089	$48,158	$42,013

Assets At December 31

Property, plant and equipment (including equipment leased to others)
For the years ended December 31

(In millions)	Assets 1988	Assets 1987	Assets 1986	Additions 1988	Additions 1987	Additions 1986(a)	Depreciation, depletion and amortization 1988	Depreciation, depletion and amortization 1987	Depreciation, depletion and amortization 1986
GE									
Aerospace	$ 3,838	$ 3,943	$ 2,253	$ 208	$ 178	$ 311	$ 170	$ 151	$ 111
Aircraft Engines	5,164	5,066	4,553	234	242	332	251	242	194
Broadcasting	4,104	3,948	3,464	147	115	388	70	64	31
Industrial	3,729	4,041	4,267	301	274	370	249	315	307
Major Appliances	2,284	1,529	1,576	215	118	104	105	93	97
Materials	7,130	3,901	3,587	757	378	600	252	202	255
Power Systems	2,531	3,266	3,457	127	118	127	138	162	173
Technical Products and Services	3,183	3,873	2,751	203	235	856	168	170	183
Investment in GEFS	4,819	3,980	2,994	—	—	—	—	—	—
All Other	1,122	2,046	2,193	5	72	417	17	62	56
Corporate Items and Eliminations	3,379	2,707	3,316	91	48	175	102	83	53
Total GE	41,283	38,300	34,411	2,288	1,778	3,680	1,522	1,544	1,460
GEFS									
Financing	44,874	34,163	25,867	1,738	503	701	695	325	337
Insurance	7,849	6,481	5,517	26	3	4	6	4	4
Securities Broker-Dealer	21,891	20,041	22,181	19	60	40	32	28	13
All Other	331	721	258	14	13	19	11	12	11
Total GEFS	74,945	61,406	53,823	1,797	579	764	744	369	365
Eliminations	(5,363)	(4,292)	(3,416)	—	—	—	—	—	—
Consolidated totals	$110,865	$95,414	$84,818	$ 4,085	$ 2,357	$ 4,444	$ 2,266	$ 1,913	$ 1,825

(a) Includes $1,638 million acquired with RCA.

• Revenues include income from all sources: i.e., for GE, both sales of products and services to customers and "other income"; for GEFS, "earned income" as described in note 1. In general, it is GE policy to price sales from one Company component to another as nearly as practical to equivalent commercial selling prices. Somewhat more than one-fifth of GE's external sales are to agencies of the U.S. government, GE's largest single customer. Most of these sales were aerospace and aircraft engine products and services.

• Operating profit by industry segment is on page 33 of this report.

• Effective with 1988, GE ceased reporting results for the former Consumer Products segment inasmuch as the largest contributor to revenues in that segment was the consumer electronics business, which was transferred to Thomson, S.A. at the end of 1987. Consumer electronics results for prior years are now classified as All Other. The remaining businesses in the former Consumer Products segment are now included in other segments: Lighting in the Industrial segment; Denver and Miami television stations in the Broadcasting segment; and licensing activities in All Other. Prior data for these segments have been adjusted for comparability. A description of each of the Company's industry segments follows.

GE

• **Aerospace** products and services encompass electronics, avionic systems, military vehicle equipment, automated test systems, computer software, armament systems, missile system components, simulation systems, spacecraft, communication systems, radar, sonar and systems integration. Most aerospace sales are to agencies of the United States government, principally the Department of Defense and the National Aeronautics and Space Administration.

• **Aircraft Engines** and replacement parts are manufactured and sold by GE for use in military and commercial aircraft, for use in naval ships and for use as industrial power sources. GE's military engines are used in a wide variety of aircraft that includes fighters, bombers, transports and helicopters. CF6 engines are used in the McDonnell Douglas DC-10, the Airbus Industrie A300 and the Boeing 747. More advanced CF6 engine models have been selected to power the Boeing 747 and 767, the Airbus Industrie A310, A300-600 and A330, and the McDonnell Douglas MD-11. Of growing importance is the CFM56 engine family produced jointly by GE and SNECMA of France and marketed through their CFM International joint venture. Applications include the Boeing 737-300, 737-400 and 737-500, and the re-engined Boeing KC-135 military tanker. Advanced CFM56 engine models are used for the Airbus Industrie A320 and will be offered on the long-range Airbus Industrie A340. GE also produces jet engines for executive aircraft and regional commuter airlines.

• **Broadcasting** consists primarily of the National Broadcasting Company (NBC), which is the current leader in network television. NBC's principal businesses are the furnishing within the United States of network television services to affiliated television stations, the production of live and recorded television programs and the operation, under licenses from the Federal Communications Commission (FCC), of seven VHF television broadcasting stations. The NBC Television Network is one of three competing major national commercial broadcast television networks and serves more than 200 regularly affiliated stations within the United States. The television stations NBC owns and operates are located in Chicago, Cleveland, Denver, Los Angeles, Miami, New York and Washington, D.C. Broadcasting operations are subject to FCC regulation and station licensing. NBC also had owned and operated eight radio broadcasting stations. However, seven of the radio stations were sold in various transactions during 1988 with sale of the last one expected in 1989. NBC is currently expanding its operations, including investment and programming activities in cable television.

• **Industrial** encompasses factory automation products, motors, electrical equipment for industrial and commercial construction, GE Supply Company, transportation systems and lighting products. Customers for many of these products and services include electrical distributors, original equipment manufacturers and industrial end users. Factory automation products cover a broad range of electrical and electronic products, including drive systems, with emphasis on manufacturing and advanced engineering automation applications. Motors and motor-related products consist mainly of appliance motors and controls but also include larger sizes of motors for a broad range of industrial users. Motor products are used within GE and also are sold externally. Electrical distribution and control equipment is sold for installation in commercial, industrial and residential facilities. GE Supply operates a nationwide network of electrical supply houses. Transportation systems include diesel-electric and electric locomotives, transit propulsion equipment, motorized wheels for off-highway vehicles, such as those used in mining operations, and drilling devices. Locomotives are sold principally to domestic and foreign railroads, while markets for other products include state and urban transit authorities and industrial users. Lighting products include a wide variety of lamps — incandescent, fluorescent, high intensity discharge, halogen and specialty — as well as wiring devices and quartz products. Markets and customers are principally in the United States, although foreign markets also are served. These markets are extremely varied, ranging from

household consumers to commercial and industrial end users and original equipment manufacturers. Through most of 1988 the Industrial segment also included semiconductor operations, most of which were sold in the fourth quarter.

- **Major Appliances** includes kitchen and laundry equipment such as refrigerators, ranges, microwave ovens, freezers, dishwashers, clothes washers and dryers, and room air conditioners. These are sold under GE, Hotpoint and Monogram brands and, increasingly, under private brands for retailers. Distribution of appliances using the RCA brand is planned in 1989. GE microwave ovens and room air conditioners are mainly sourced from foreign suppliers while investment in Company-owned domestic facilities is focused on refrigerators, dishwashers, ranges and home laundry equipment. Acquisition of Roper Corporation in April 1988 added to GE's productive capacity and broadened its product offerings, including gas ranges. A large portion of major appliance sales is to a variety of retail outlets with a significant portion of sales of certain products such as laundry equipment and refrigerators being for replacement of older products. The other principal market consists of residential building contractors who install major appliances in new dwellings. A nationwide service network supports GE's appliance business.

- **Materials** includes high-performance engineered plastics used in applications such as substitutes for metal and glass in automobiles and as housings for computers and other business equipment; silicones; superabrasives such as man-made diamonds; and laminates. Market opportunities for many of these products are created by functional replacement that provides customers with an improved material at lower cost. These materials are sold to a diverse customer base (mainly manufacturers) in the United States and abroad. Acquisition of the chemicals businesses of Borg-Warner Corporation at the end of 1988's third quarter provides GE with a new product — ABS resins, a family of thermoplastic resins used by custom molders and major original equipment manufacturers for use in a variety of applications, including fabrication of automotive parts, computer enclosures, major appliance parts and pipe. The acquisition also adds technical and manufacturing strength and domestic and offshore marketing facilities and expertise that complement GE's existing businesses. Materials also includes Ladd Petroleum Corporation, an oil and natural gas developer and supplier with operations mainly in the United States.

- **Power Systems** serves worldwide utility, industrial and governmental customers with products for the generation, transmission and distribution of electricity and with related installation, engineering and repair services. Although GE remains a leader in most power systems products, domestic and foreign markets have been declining for a number of years. Worldwide competition continued to intensify in 1988 with potentially important new combinations by foreign and domestic competitors. New order rates and backlogs continue to be low by long-term historical standards despite some improvement during 1988. GE management continues vigorous efforts to improve cost-competitiveness and to adapt products and marketing to the changing environment. Steam turbine-generators are sold to the electric utility industry, to the U.S. Navy and, for cogeneration, to private industrial customers. Marine steam turbines and propulsion gears also are sold to the U.S. Navy. Gas turbines are used principally as packaged power plants for electric utilities and for industrial cogeneration and mechanical drive applications. Centrifugal compressors are sold for application in gas reinjection, pipeline services and such process applications as refineries and ammonia plants. Although there have been no nuclear plant orders in the United States since the mid-1970s and international activity has been very low, GE continues to invest in advanced technology development and to focus its resources on refueling and serving its installed boiling-water reactors. Power delivery products include transformers, relays, electric load management systems, power conversion systems and meters, principally for electric utilities. Installation, engineering and repair services include management and technical expertise for large projects, such as power plants; maintenance, inspection, repair and rebuilding of electrical apparatus produced by GE and others; on-site engineering and upgrading of already installed products sold by GE and others; and environmental systems for utilities. An affiliate providing international construction services was sold at the beginning of 1988.

- **Technical Products and Services** consists of technology operations providing products, systems and services to a variety of customers. Businesses in this segment include medical systems and services, communications and information services, and certain other specialized services. Medical systems include magnetic resonance (MR) scanners, computed tomography (CT) scanners, x-ray, nuclear imaging, ultrasound, and other diagnostic equipment and supporting services sold to domestic and foreign hospitals and medical facilities. GE Americom, the leading domestic satellite carrier, operates seven domestic satellites providing distribution services for cable television, broadcast television and radio, and voice, video and wideband data services to agencies of the federal government. Common carrier services of Americom are subject to regulation by the FCC. GE's mobile communications products consist mainly of mobile and hand-held two-way radios, cellular telephones and land-mobile cellular systems for a variety of business and government customers. Information services are provided both to internal and external customers by GE Information Services, GE Consulting Services and

the GE Computer Service operation. These include enhanced computer-based communications services, such as data network services, electronic messaging and electronic data interchange, which are offered to commercial and industrial customers through a worldwide network; application software packages; custom system design and programming services; and independent maintenance and rental/leasing services for minicomputers and microcomputers, electronic test instruments and data communications equipment. A separate services component provides a variety of specialized services to government customers. RCA Globcom and assets of The Calma Company were sold during 1988.

• **Earnings of and Investment in GEFS** are shown on a "one-line" basis in GE's segment data but are eliminated in consolidation. A separate discussion of GEFS segments appears below.

• **All Other** for periods prior to 1988 consists mostly of former consumer electronics operations (principally video and audio products, including operations acquired from RCA in 1986). Other historical data reflect miscellaneous former RCA activities no longer owned by GE and, in 1985 and 1984, the remainder of mining activities of GE's former affiliate, Utah International Inc. Ongoing operations include a small affiliate that is an equity investor in selected real estate development projects and a few residual investments of a venture capital corporation, most of whose portfolio was sold in 1987.

GEFS

The business of General Electric Financial Services, Inc. (GEFS) consists of the ownership of three affiliates that, together with their affiliates and other investments, constitute General Electric Company's principal financial services activities. GEFS owns all of the common stock of General Electric Capital Corporation (GECC) and of Employers Reinsurance Corporation (ERC) and owns 80% of Kidder, Peabody Group Inc. (the other 20% is held by or on behalf of certain Kidder, Peabody officers).

For industry segment purposes, Financing consists solely of activities of GECC; Insurance consists principally of activities of ERC but also includes certain insurance entities owned by GECC; Securities Broker-Dealer consists entirely of Kidder, Peabody's operations; and All Other is mainly GEFS' corporate activities not identifiable with specific industry segments.

Additional information about each GEFS segment follows.

• **Financing** activities of GECC include time sales, revolving credit and inventory financing for retail merchants (major appliances, television sets, furniture and other home furnishings, and personal computers); automobile leasing and automobile inventory financing; home and recreation financing (principally time sales and dealer inventory financing of mobile homes); commercial and industrial loans and equipment sales financing provided through leases, time sales and loans; leasing services for third-party investors; and commercial and residential real estate financing. Acquisition of Montgomery Ward & Co.'s credit operations in June 1988 added to GECC's earning assets, particularly in credit card operations. GE Capital also is an equity investor in certain other service and financial services organizations and participates in leveraged buyouts. Although leasing has been a major factor in GECC's growth in recent years, GECC has actively changed its investment portfolio to place greater emphasis on asset ownership, management and operation. Virtually all products financed by GECC are manufactured by companies other than GE.

• **Insurance** consists mainly of ERC, a multiple-line property and casualty reinsurer that writes all lines of reinsurance other than title and annuities. ERC reinsures property and casualty risks written by more than 1,000 domestic and foreign insurers and augments its foreign business through subsidiaries located in the United Kingdom and, since January 1988, in Denmark. By way of other subsidiaries, ERC writes property and casualty reinsurance through brokers and provides reinsurance brokerage services. ERC also writes certain specialty lines of insurance on a direct basis, principally excess workers' compensation for self-insurers, libel and allied torts, and errors and omissions coverage for insurance agents and brokers. It is licensed in all states of the United States, the District of Columbia, certain provinces of Canada and in other jurisdictions. ERC's business is generally subject to regulation by various insurance regulatory agencies. Lesser insurance activities of GEFS include certain GECC affiliates that provide private mortgage insurance, life reinsurance and, for GECC customers, credit life and certain types of property/casualty insurance.

• **Securities Broker-Dealer** represents Kidder, Peabody, which is a major investment banking and securities firm. Principal businesses include securities underwriting; sales and trading of equity and fixed income securities; financial futures activities; advisory services for mergers, acquisitions and other corporate finance matters; merchant banking; research services; and asset management. These services are provided in the United States and abroad to domestic and foreign business entities, governments, government agencies, and individual and institutional investors. Kidder is a member of the principal domestic securities and commodities exchanges and is a primary dealer in United States government securities. Certain affiliates of Kidder, Peabody are subject to the rules and regulations of various federal, state and industry regulatory agencies that apply to securities broker-dealers, including the U.S. Securities and Exchange Commission, U.S. Commodity Futures Trading Commission, New York Stock Exchange, National Association of Securities Dealers and the Chicago Board of Trade.

Note 34 Geographic Segment Information (consolidated)

Revenues
For the years ended December 31

(In millions)	Total revenues 1988	Total revenues 1987	Total revenues 1986	Intersegment revenues 1988	Intersegment revenues 1987	Intersegment revenues 1986	External revenues 1988	External revenues 1987	External revenues 1986
United States	$46,364	$45,160	$38,828	$ 874	$ 801	$ 639	$45,490	$44,359	$38,189
Other areas of the world	5,576	4,894	4,387	977	1,095	563	4,599	3,799	3,824
Intercompany eliminations	(1,851)	(1,896)	(1,202)	(1,851)	(1,896)	(1,202)	—	—	—
Total	$50,089	$48,158	$42,013	$ —	$ —	$ —	$50,089	$48,158	$42,013

	Operating profit (For the years ended December 31) 1988	1987	1986	Assets (At December 31) 1988	1987	1986
United States	$ 4,941	$ 3,715	$ 2,989	$102,327	$89,480	$80,831
Other areas of the world	1,009	725	740	8,641	6,027	4,090
Intercompany eliminations	(10)	10	7	(103)	(93)	(103)
Total	$ 5,940	$ 4,450	$ 3,736	$110,865	$95,414	$84,818

U.S. revenues include GE exports to external customers, and royalty and licensing income from foreign sources. GEFS' 1986 and 1987 operations were virtually all in the United States and, although GEFS' offshore activity began to increase in 1988, non-U.S. operations were not significant.

Revenues, operating profit and assets associated with foreign operations are shown above. At year-end 1988, foreign operation liabilities, minority interest in equity and GE interest in equity were $6,188 million, $142 million and $2,311 million, respectively. The amounts were $3,196 million, $111 million and $2,720 million, respectively, at December 31, 1987; and they were $1,871 million, $112 million and $2,107 million, respectively, at December 31, 1986.

U.S. exports to external customers

(In millions)	1988	1987	1986
Europe	$1,805	$1,253	$1,634
Pacific Basin	1,357	1,146	985
Middle East and Africa	937	762	490
Americas	531	625	476
Other areas	240	238	124
Total	$4,870	$4,024	$3,709

Note 35 Quarterly Information (unaudited)

(Dollar amounts in millions; per-share amounts in dollars)	First quarter 1988	First quarter 1987 original	First quarter 1987 restated	Second quarter 1988	Second quarter 1987 original	Second quarter 1987 restated	Third quarter 1988	Third quarter 1987 original	Third quarter 1987 restated	Fourth quarter 1988	Fourth quarter 1987 pro forma	Fourth quarter 1987 reported
Consolidated operations												
Net earnings	$ 725	$ 624	$1,177	$ 835	$ 720	$ 679	$ 815	$ 703	$ 661	$1,011	$ 868	$ 398
Per share	0.80	0.68	1.29	0.93	0.79	0.74	0.90	0.77	0.73	1.12	0.96	0.44
Dividends declared Per share	0.35	0.315		0.35	0.33		0.35	0.33		0.41	0.35	
Earnings before extraordinary item and cumulative effect of accounting changes	725	343	319	835	720	679	815	703	661	1,011	353	460
Per share	0.80	0.37	0.35	0.93	0.79	0.74	0.90	0.77	0.73	1.12	0.40	0.51
Common stock market price — high	47⅞	55¾		44½	56⅜		44¾	66⅜		46⅝		62¾
— low	40	43⅛		38⅜	49⅛		39	53⅝		42⅛		38¾
Selected data												
GE												
Sales of products and services	7,975	8,315		9,245	9,560		9,306	9,404		12,298		12,036
Gross profit from sales	1,978	2,048		2,365	2,359		2,349	2,022		3,270		3,229
Unusual expenses (before tax)	—	(308)		—	(58)		—	(54)		—		(607)
GEFS												
Earned income	2,411	2,048		2,465	1,976		2,717	1,970		3,062		2,231
Operating profit	246	214		223	168		230	147		328		43
Unusual expenses (before tax)	—	—		—	(54)		—	—		—		(37)
Extraordinary item (after tax)	—	—		—	—		—	—		—		(62)

For GE, gross profit from sales is sales of goods and services less cost of goods and services sold, and it is before unusual expenses. For GEFS, operating profit is as presented on page 33 of this report, and it includes unusual expenses.

Second-, third- and fourth-quarter 1988 net earnings included negative effects ($23 million — 2 cents per share, $43 million — 5 cents per share and $231 million — 26 cents per share, respectively) of expenses and accruals for abnormally high warranty costs for certain refrigerator compressors.

In the fourth quarter of 1987, the Company elected to adopt then just-issued Statement of Financial Accounting Standards No. 96 pertaining to accounting for income taxes. The cumulative effect to January 1, 1987 on net earnings was $59 million (6 cents per share) for GE and $518 million (57 cents per share) for GEFS. In accordance with SFAS No. 96 transition rules, it was necessary to restate first-quarter 1987 for this cumulative effect even though the decision to adopt could not be made until year-end 1987. Also, as required, earnings for each of the interim quarters of 1987 had to be restated as if adoption had occurred at January 1, 1987. The effect of these restatements was to reduce total net earnings and earnings before extraordinary item and cumulative effect of accounting changes by: first quarter — $24 million (2 cents per share); second quarter — $41 million (5 cents per share); third quarter — $42 million (4 cents per share); and fourth quarter — $31 million (4 cents per share). In order to provide adequate data for comparing 1988 and 1987 results by quarter, amounts in the table above for the first three quarters of 1987 are shown before and after the restatements, and for the fourth quarter are shown "pro forma" as they would have been if the entire effect of the accounting change had been recorded in that quarter when the decision to adopt was made.

Separately, first-quarter 1987 net earnings included the cumulative positive effect ($281 million, 31 cents per share) to January 1, 1987 of changing inventory accounting; and fourth-quarter 1987 net earnings included an extraordinary loss ($62 million, 7 cents per share) on early extinguishment of debt by GECC.

After taxes, unusual items (mainly business restructuring expenses) in 1987 plus the extraordinary item were somewhat more than the total positive impact on net earnings for the year from accounting changes.

Corporate Information

Corporate Headquarters
General Electric Company
3135 Easton Turnpike
Fairfield, Conn. 06431

Annual Meeting
The 1989 Annual Meeting of the General Electric Company will be held on Wednesday, April 26, at the Hyatt Regency Greenville in Greenville, S.C.

Dividend Reinvestment Plan
Share owners who have one or more shares of GE stock registered in their names are eligible to invest cash up to $10,000 per month and/or reinvest their dividends in the GE Dividend Reinvestment and Share Purchase Plan. For an authorization form and prospectus, write to: GE Share Owner Services, P.O. Box 206, Schenectady, N.Y. 12301-0206.

Principal Transfer Agent and Registrar
The Bank of New York
Attn: Receive & Deliver Department
Church Street Station
P.O. Box 11002
New York, N.Y. 10249-1002

Stock Exchange Information
In the United States, GE common stock is listed on the New York Stock Exchange (its principal market) and on the Boston Stock Exchange. GE common stock also is listed on certain foreign exchanges, including The Stock Exchange, London and the Tokyo Stock Exchange.

As of December 8, 1988, there were about 532,000 share owners of record.

Form 10-K and Other Reports
The financial information in this report, in the opinion of management, substantially conforms with or exceeds the information required in the "10-K Report" to be submitted to the Securities and Exchange Commission at the end of March. Certain supplemental information is in that report, however, and copies without exhibits will be available, without charge, from: Corporate Investor Communications, General Electric Company, Fairfield, Conn. 06431.

Copies of the General Electric Pension Plan, the Summary Annual Report for GE employee benefit plans subject to the Employee Retirement Income Security Act of 1974, and other GE employee benefit plan documents and information are available by writing to Corporate Investor Communications and specifying the information desired.

GE Financial Services has a separate Annual Report, and both it and GE Capital Corporation file Form 10-K Reports with the Securities and Exchange Commission. Copies of these reports may be obtained from: General Electric Financial Services, Inc., P.O. Box 8300, Stamford, Conn. 06904.

The Annual Reports of the General Electric Foundations also are available on request.

Product Information
For information about GE consumer products and services, call The GE Answer Center® at (800) 626-2000. For information about GE technical, commercial and industrial products and services, call the GE Business Information Center at (518) 438-6500. For information about the varied financial products and services offered by GE Capital Corporation, call (800) 243-2222.

Note: Unless otherwise indicated by the context, the terms "GE," "General Electric" and "Company" are used on the basis of consolidation described on page 44. GENERAL ELECTRIC, , GE and RCA are registered trademarks of General Electric Company; and NBC are registered trademarks of National Broadcasting Company, Inc.; ® and ™ indicate registered and unregistered trade and service marks.

1988 Annual Report

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